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FOREIGN ASSISTANCE AUTHORIZATIONS FOR FISCAL YEAR 1990

HEARINGS

BEFORE THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

MAY 2 and 8, 1989

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FOREIGN ASSISTANCE AUTHORIZATIONS FOR FISCAL YEAR 1990

MONDAY, MAY 2, 1989

U.S. Senate,
Committee on Foreign Relations,
Washington, DC.

The committee met at 10:04 a.m. in room SD-419, Dirksen Senate Office Building, Hon. Claiborne Pell (chairman of the committee) presiding.

Present: Senators Pell, Sarbanes, Simon, Sanford, Helms, Kassebaum, Pressler, and Mack.

The Chairman. The committee will come to order. This morning's hearing is the second day of the Foreign Relations Committee hearings on the fiscal year 1990 authorization request for foreign assistance.

Two weeks ago Secretary Baker testified before us urging full funding of the administration's request for the international affairs function in the budget. Under the budget summit agreement function 150, discretionary spending, is set at $19 billion. That was thought to represent a $300 million reduction from the original administration request for those programs.

I now understand that some recalculations are going on within the administration and a reduction in this area is more likely to be almost twice that, on the order of $750 million from the original request. This would put the funding levels for the function back to roughly the current amount of spending.

As we proceed with this morning's administration witnesses, we will hear first from Mr. Alan Woods and then from Mr. Bartholomew and General Brown. The committee will seek to benefit from the administration's views on how best to benefit the U.S. interests, humanitarian as well as security, from foreign assistance programs.

Senator Helms.

Senator Helms. Thank you, Mr. Chairman.

I am glad to see Alan Woods here this morning. He looks well. You have our best wishes.

Mr. Ambassador, your report, "Development and the National Interest" and others such as the one by Nick Eberstadt of the American Enterprise Institute have served a useful purpose to focus on the woefully inadequate results which the United States can point to as the result of an enormous expenditure in foreign aid.

I do not know whether you are familiar with it, but some years back—maybe 10 years ago—in response to a constituent, we put together the figures on how much has been spent by the U.S. Government on foreign aid from its inception in the 1950's through that time.

What we did was, we took each year's appropriation and inasmuch as the Federal Government has not had a balanced budget except by legerdemain almost in my lifetime, we factored in the interest and rolled it over and so forth and the total figure, as of that time, came to something like, as I recall about a $1.5 trillion.

Some arguments could be made about factoring in the interest, but that is the way we did it because the negligence of Congress to even be serious about a balanced budget speaks for itself.

In any case, foreign aid as you know has been a problem with me long predating your arrival on the scene and nothing I say here is intended as personal criticism of you, because I think you have done as good a job, or better, than anybody could have expected in trying to run your end of it.

Now, I gather that the administration—this administration—like those that preceded it would like more flexibility, which generally means fewer congressional restrictions and conditions as well as less oversight. Of course, each legislative restriction or condition was put in the legislation precisely because of inadequate responsiveness to congressional and public concerns.

I would say, parenthetically, that my experience with you is that you have gone the second mile time and time again to be responsive and I commend you for that. But let me cite some examples.

The administration continued U.S. funding to the U.N. Fund for Population Activities despite credible evidence that the Chinese were using those funds for a program of forced abortion. I have been up and down the road with a lot of people in the administration about that, and that Chinese policy continues to this very day although their rhetoric has subsided somewhat. But at least U.S. taxpayers no longer have to fund such atrocities.

The Congress has had to put conditions on possible aid to Mozambique because of administration sympathies toward providing economic and even military assistance to a Communist country, which Mozambique is.

The administration's sometimes cavalier treatment of legislative conditions when imposed makes it unlikely, in my judgment, that Congress is going to grant broad discretionary authority to any administration, no matter who is the President.

For instance, just last fall, only weeks after Congress reiterated the longstanding prohibition on aid to Angola, we find that AID sent a group of people to Angola for the express purpose of considering some sort of aid program to Angola, despite the legislative prohibitions on it. This gave me a problem, as you know.

In the meantime, other things are going on. But I will say this: "If the State Department or AID or both are going to engage in violations of a congressional prohibition, I suspect that we are going to have more, not fewer, legislative prohibitions."

In terms of the reform legislation that has been discussed, my inclination is that elimination of country-specific earmarks is unlikely both on its merit and on the political ability to achieve it. However, I do suggest that we should consider whether, as a first step, greater emphasis should be placed on the possibility of providing somewhat greater flexibility in the development assistance categories.

Many observers have pointed out to me and to others that the functional accounts—that is to say, for agriculture and health, population and so forth—become administratively restrictive without really accomplishing their intended purposes.

Now, I mention all of this because this is an area I hope we might pursue as a less grand scheme for reform, but one that could conceivably be targeted more effectively to provide U.S. support for economic development in developing countries.

It also seems that such an approach holds greater possibilities for programs which reach the people—the people, not the governments—the people of developing countries rather than reaching only the bureaucracies of those countries, because it is troubling to me that over 90 percent of U.S. aid, according to one survey at least—and you might want to address this—goes to foreign governments and not to the people.

Again, I welcome you and I thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Helms. Following up that thought for a second, the administrator may recall that some years ago I offered an amendment saying that all the economic aid should be administered by all the voluntary agencies which have a constituency which the AID bureaucracy does not have.

It is an idea that obviously was a little extreme. It did not pass. It was not seriously considered, but I still think it is a good idea and it is the direction that my own personal philosophy is—that the more the voluntary agencies do, they do it cheaper, they do it efficiently and with greater empathy than the U.S. Government and I speak as one who has headed up a voluntary agency program in Europe at one point.

Mr. Woods, please go ahead.

Senator HELMS. Mr. Chairman, if I might interject. You remember the delightful man, Clif Hansen, a Senator from Wyoming. He came over to me one time, right after an amendment of mine had been defeated. He said "Jesse, that was a great amendment. It would have done a lot of good. It would have saved money and obviously it didn't pass." So, that's the way it was with your amendment.

The CHAIRMAN. Exactly. It would have saved money—about half. At least, that was what we had figured it out at the time that the Federal-Government would have charged.

Senator HELMS. Well, Winston Churchill once said about the congressional system—our congressional system—he said, "It's the worst system on Earth except for all of the rest."

The CHAIRMAN. Yes, exactly. Mr. Woods.

STATEMENT OF HON. ALAN WOODS, ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. WOODS. Thank you. Mr. Chairman, with your permission I will submit my written statement for the record and will comment briefly on a few things that I would like to emphasize.

The CHAIRMAN. Your statement will appear in full with the record and from my staff I understand you are going to have a very brief summary of it.

Mr. Woods. Right. In that statement I do address the issues which Senator Helms has raised.

Mr. Chairman and members of the committee, it is a pleasure to appear before you today to discuss the future of the foreign assistance program and to present the budget request for the Agency for International Development for the coming fiscal year.

The time is right for the United States to take a fresh look at our foreign assistance program. We have a new administration which is reviewing a broad spectrum of foreign policy issues, but the fundamental emphasis on our foreign assistance program, the encouragement and reinforcement of sustainable and broad based economic growth, will continue to define our strategies and programs.

We are witnessing a very exciting period with respect to the economic policies of developing countries. In all corners of the world, policymakers are abandoning failed experiments in state run economic systems in favor of market led approaches to growth and development.

The United States has an important stake in developing countries, and our destinies become more intertwined each decade. In addition to economic interdependence, the protection of the world's environment and atmospheres ties the quality of our lives together.

We need to redefine our foreign assistance programs. Much of the groundwork has been laid. During the last year our foreign assistance program has been studied and scrutinized probably as never before. One of these studies was undertaken within AID, the development and the national interest report.

My purpose in preparing such a report was to take a hard look at the origins, evolutions, successes, and failures in global development. We found the experiences of developing countries have varied widely. Each country is unique. There is no such thing as a model for sustainable development, and it is also clear that development is a long-term process.

AID is not alone in recognizing the need for a new approach for development assistance. Your colleagues in the House Foreign Affairs Committee have studied the status and limitations of our current foreign aid programs.

Their examination of the Foreign Assistance Act concluded that foreign assistance authorization legislation, now stretching to 240 pages, contains so many detailed budgetary and programmatic directives that from an operational point of view it translates into gridlock.

We need to wipe the slate clean and enact new foreign assistance legislation that will help us do the job and do it better. This committee is well positioned to engage in this effort. You have established a solid foundation through hearings chaired by Senator Kassebaum 4 years ago, in which the problems which plague our current foreign assistance program were identified. This committee also took an active role in the establishment of the development fund for Africa.

While still only 2 years old, the DFA is serving as a designing a funding mechanism that responds to our needs for flexibility in the programming and implementation of our resources in Congress' needs to fulfill its oversight responsibilities, and in our joint need to provide reasonable assurances to the U.S. taxpayer that foreign aid dollars are being used effectively.

I want to work with you and other members of this committee to draw on your ideas and experience in the ongoing effort to rethink and rework our foreign assistance program.

Now, turning to our budget request for fiscal year 1990, I will not go into the specifics of that request. You have our congressional presentation, and I stand ready to respond to your questions.

First, however, I would like to highlight a few priorities for the coming fiscal year. One of my top priorities is management, both financial and operational. We are properly held to a very high standard of accountability by Congress, and accountability entails a lot of work.

Program accountability means shifting our emphasis to implementation and evaluation. Progress has been made, but there is still room for improvement. Financial accountability means providing reasonable assurances that our assistance is not being misused. You expect as much and so do I.

Shortages of direct hire staff have impeded our ability to achieve the level of accountability we both desire. I want to correct this problem and I will need your help. Part of the solution lies in the additional resources we are requesting in our operating expense account.

These resources play a pivotal role in our request for stricter accountability, stronger management over programs and finances, and greater impact for our development dollars.

There are additional, indeed more expensive reasons for higher OE request levels. These include the congressionally mandated changes to the foreign affairs administration system and the impact of the January pay raise.

Another important feature of our fiscal year 1990 request is the $200 million request for the multilateral assistance initiative for the Philippines. These funds will enable us to affirm our support to President Aquino and renew efforts toward encouragement of the private sector, better and more efficient utilization of donor assistance, rehabilitation of basic infrastructure and improvements in the delivery of social services.

The MAI also allows us to stretch our limited resources with substantial flows from other bilateral, multilateral, and private sector sources.

I believe our budget request represents a tightly focused, coherent program which will enable us to pursue economically sound and sustainable development. I look forward to working with you on this year's budget request and, more importantly, on the exciting opportunity to make long overdue changes in foreign assistance legislation.

Thank you, Mr. Chairman. I will be glad to take whatever questions you may have.

[The prepared statement of Alan Woods follows:]

STATEMENT OF ALAN WOODS

I. INTRODUCTION

Mr. Chairman, members of the Committee, it is a pleasure to appear before you today to discuss the future of the U.S. foreign assistance program and to present the budget request of the Agency for International Development for the coming fiscal year.

The time is right for the United States to take a fresh look at our foreign assistance program. First, we have a new Administration. I am pleased to be part of President Bush's team and to have the opportunity to work closely with Secretary Baker. While a review of U.S. foreign policy issues is currently underway within the Administration, I can assure you that the policies and priorities of our foreign assistance program will be fundamentally consistent with those pursued during the past eight years. We will continue to emphasize strategies and programs which promote sustainable and broadly-based economic growth in developing countries.

Second, we are witnessing an exciting period of economic policy ferment in all corners of the developing world. Policy makers in Africa, Latin America, Asia and the Near East are abandoning failed experiments in state-run economic systems in favor of market-led approaches to growth and development. They are reexamining why their past models haven't worked and what they need to do to move their countries to a higher growth path. They are undertaking important experiments that represent, for many, a sea change in their attitudes towards individual initiative and the role of the state. Barriers to competition are being reduced, state-owned enterprises are being turned over to private investors, restrictive regulations are being repealed, and foreign exchange and interest rates are being adjusted to encourage investment. Opportunities for individual achievement -- to work, save, invest and succeed -- are widening. Economic structures are being reformed to make them more competitive in a rapidly changing world.

II. OPPORTUNITIES AND CHALLENGES

The implications and opportunities for the United States are enormous. We must prepare ourselves for these challenges -- ensuring that official U.S. investments in the developing world encourage and reinforce this trend. We have thirty years of experience to bring to the process. We have examined what works and what doesn't. We know that progress has to be based on broad participation, that opportunities to get ahead have to be extended throughout a society, and that the changes introduced have to make sense for a country's unique social, cultural, economic and political situation. Above all, they must be sustainable over the long run.

These changes are -- and will continue to be -- difficult to design and implement. Development is a long-term process. Sustaining needed policy reforms in the face of what people fear will be high costs to society is one of the more daunting challenges. These changes also need to be sustained in the face of powerful interests that like the old way of doing business. What is more, economic and other reforms must be undertaken in the face of tremendous resource constraints. The willingness of developing country leaders to experiment with market-oriented policies puts a premium on the quality of donor advice and the effectiveness of donor assistance. We must avoid the problems that could cause such economically sound experiments to fail.

We have to position ourselves to respond more effectively to these opportunities. We also have to be committed for the long haul -- sticking with the problems until they are solved. We have to be willing to try new approaches -- including new assistance modalities -- in our efforts to rise to these historic challenges.

Some problems -- such as environmental degradation and foreign debt -- will command significant attention on the international agenda in the immediate future. A.I.D. has recognized the link between environmental protection, management of natural resources and economic development for almost a decade and a half. These linkages are now broadly acknowledged by other donor agencies, and most importantly, by governments and individuals in developing countries. I firmly believe that environmental protection and natural resources management are necessary conditions for sustainable development. A.I.D. will continue to ensure that all its efforts are environmentally sound and will support activities designed specifically to protect and enhance the environment.

Given the dimension of the problems we face, A.I.D., working alone, would have only limited impact. Problems such as global warming and ozone depletion demand international action and cooperation. A.I.D. has, and will continue to, work with other donors to tackle the many serious environmental threats that demand multilateral action and cooperation. Wide international support for the Montreal Protocol on Chlorofluorocarbons (CFCs) is an example of the type of cooperation necessary to address global environmental problems.

Such cooperation will also be necessary to relieve the tremendous debt burden of development countries. New approaches to solving this pressing problem -- such as the so-called "Brady Plan" -- will require coordinated action among the lending nations. Options for helping those heavily indebted developing countries that are helping themselves are presently being considered in a multi-agency review.

III. BENEFITS TO THE UNITED STATES

In many of my speaking engagements over the past year, I have stressed the close relationship between strong, sustainable growth in developing countries and the performance of the U.S. economy. The rapid changes taking place in the international arena -- and the pace with which all nations are becoming more dependent upon one another's prosperity and security -- must be better understood by the American public.

For much of the American labor force, the future lies in the creation and expansion of markets in the developing world. Competition for these markets will be fierce, but we already have a firm foothold:

-- One-third of U.S. farmland is dedicated to export production, as are more than 5 million American jobs;

-- Almost one quarter of total U.S. direct investment overseas is in the developing countries; and

-- Downturns in the growth of developing economies cost the United States at least $10 billion in exports in the first half of this decade.

-- Even so, the developing countries account for roughly a third of all U.S. exports.

The trends embodied in these statistics, and the certainty that they will intensify dramatically over the next century, clearly establish that the tax dollars we use to create and sustain economic growth overseas also help sustain economic growth here at home. And supporting broadly-based, sustained development is what A.I.D. is all about. We want to make certain that our investments are profitable in the long run -- because of our responsibility to American taxpayers and because of our conviction that sustainable development will yield long-term benefits for all.

The American people are practical. They are not much interested in a titled aristocracy, and they don't care if their government programs are presented in fancy packages. They want to know what difference government really makes. As a result, what we must establish is effectiveness on the ground, in the developing countries themselves. The reality of passing budgets is here in Washington, but the reality we want to change -- the one we are obligated to monitor and respond to -- is in the 70 countries assisted by A.I.D. We cannot forget that, however great our budget problems. Effectiveness is not our ability to obligate every dollar by September 30th. Rather, it is our ability, over a reasonable period of time, to move the economies of the developing countries into a pattern of internally-sustained, broad-based economic growth, with associated improvements in the standard of living of a billion families.

Effectiveness is not easily achieved. A.I.D. has been focussing on development effectiveness for three decades, and we have our share of successes and failures. As I look over our record, I see three key areas:

-- Growth: How do we get economies moving with the kind of sustained growth the United States has known for two centuries?

-- Sustainability: How do we make sure that U.S. assistance is an "investment" with a long-term return for the target population and not merely a one-time "transaction"?

-- Implementation: How do we reach the particular people we want to reach in the most efficient way?

I think we can agree on general approaches to these three components of effectiveness. If so, the Agency for International Development is ready to deliver. But we should not underestimate the work involved in changing bad economic habits.

IV. ECONOMIC GROWTH AND HUMAN DEVELOPMENT

Economic growth occurs where policies encourage that growth and where adequate investments are being made in human resource development and other essential infrastructure. Where economic growth is not allowed to flourish, human resource development is similarly constrained. This underlying link has been well established: growth-oriented economic policies lead to declining indicators of poverty (i.e., child mortality and morbidity, malnutrition, literacy). Moreover, investments in human resource development are more likely to be sustained when both governments and people have the incomes necessary to provide and purchase essential goods and services.

The barriers to economic growth take many forms -- infringement on property rights, inappropriate legal systems, overly regulated markets, ill-conceived exchange rate policies, and restricted access to credit. Any can be an obstacle to the participation of ordinary citizens in their own economies. Even those countries which appear to operate under free and open economic structures may harbor hidden barriers to the marketplace.

As an example, Peruvian scholar Hernando de Soto tried to open a clothing business in Peru, a country which ostensibly has an open-market system. It took a lawyer and three other people over 1200 person-days to complete all the forms and obtain all the necessary signatures. The same venture was attempted in Florida -- and took all of three hours.

Over the last 20 years, much of the developing world has experimented, in varying degrees, with systems involving strict government control over productive enterprises, markets and individual initiative. The countries that did have paid a heavy price:

-- For the past quarter century, annual per capita growth rates of the world's poorest 35 countries have been virtually stagnant -- at less than one half of one percent;

-- If these countries continue on this same path, their next generation can expect to earn only $70 more per year than their impoverished parents.

For many, though, this dismal cycle is being broken, as policy makers struggle to overhaul their economic systems and remove the barriers which have hindered economic growth. The process is slow and difficult -- structural adjustment does not come easily. Resources are required to help stabilize feeble systems under transition and nurture the adjustment process. Export proceeds for many developing countries have tumbled in this decade; commercial debt sources are providing only a fraction of what they did ten or even five years ago; and the need to service official and private debt to preserve the few flows that are available has severely restricted the ability of many developing countries to make foreign exchange available for the raw material and capital goods imports needed for growth. This situation may not change rapidly, despite increasing attention.

Our challenge, then, is to help developing countries make the best use of available resources -- changing investment patterns, allowing market forces to determine which uses are most advantageous, and capitalizing on individual initiative to create wealth.

Economic change is only part of this picture. Investment also means investment in human resource development.

Significant progress has been made in our efforts to improve the quality of life in developing countries over the 28 years of A.I.D.'s existence. Measurable reductions in infant and child mortality rates have occurred as a result of our child survival and health programs. A.I.D. assists developing countries in the expansion of basic health care by emphasizing immunization, oral rehydration therapy and the control of major communicable parasitic diseases. Diseases which claim the lives of too many children in the developing world -- such as measles, whooping cough, tetanus, polio and diphtheria -- are a major area of concentration for our child survival programs. Over the past few years we have also shifted some of our emphasis to controlling the AIDS epidemic, recognizing that the spread of HIV among adults lowers the overall health status of developing countries and endangers the lives of children.

Other areas of human resource development include agriculture and rural development, where we have seen vastly increased yields and clear movement toward food self-sufficiency in a number of countries as a result of the wide dissemination of agricultural technologies. Education continues to be a high priority for A.I.D., with the dual objectives of expanding access to basic education and literacy programs and also to provide scientific, technical and managerial training to strengthen the institutional capacity of developing countries. We have twenty years of experience in the population field, and as the pricipal international donor in population programs, the United States has provided 40% of external population assistance to developing countries in recent years.

We are proud of our successes and intend to build on them. However, it is not enough to be satified with progress in one or two sectors of development -- we must press ahead with comprehensive country programs which promote economic growth on all levels.

We are committed to helping developing countries define sustainable approaches for making a wide range of social services readily available. Today, many developing country governments maintain virtual monopolies on the provision of education, health care and other social services. Yet they do not have the resources to fulfill the mandates they have taken on in these areas. In a number of countries, we are already helping to identify ways in which the private sector can help to make social services more widely available -- by working with governments on a contract basis to manage the provision of such services or by providing such services directly through the private sector on a fee-for-service basis.

V. REVIEWS AND REFORMS OF THE U.S. FOREIGN ASSISTANCE PROGRAM

Before we move away from the discussion of sustainable growth prospects, I want to discuss the findings of a report recently released by A.I.D.: "Development and the National Interest". Of the many findings contained in this report, perhaps the most significant is that growth has to be understood and pursued on a country-by-country basis. As I have said many times to my staff, each country is like a fingerprint, and each economy has problems which must be addressed individually. We need to craft our programs so that they reflect reality in each country.

In the report, we took a retrospective look at the origins, evolution, successes and failures of U.S. involvement in global development. We have tried to identify and examine emerging development issues and their impact on American interests. Conventional wisdom and preconceived "laws" of development were challenged. Basic questions surrounding our definitions of success and our security, economic, and humanitarian interests in development were freshly examined. Most importantly, we asked how foreign assistance can better serve U.S. interests.

We found that efforts to stimulate development must be tailor-made to individual country circumstances to be truly effective. Each developing country has its own history, social structure and resources -- and our assistance must complement the internal economic and political forces at work in that country. Our model of country-based programming -- for many years virtually unique among development organizations but now being copied by other donors -- is central to our ability to be truly effective both managerially and programmatically.

The question before us -- the Congress and the Executive Branch -- is how to move towards a more effective assistance program. One solution is to rethink and revamp the current Foreign Assistance Act -- an undertaking which has seized the time and talents of many in the Congress, in the Administration and among a wide array of interest groups for the past year.

I have been keenly interested and involved in efforts to reexamine the Foreign Assistance Act. The report issued by Congressmen Hamilton and Gilman is a balanced, open-minded assessment of the current Act and its shortcomings. The recommendations for new legislation and a new approach to development assistance are encouraging from more than a programmatic standpoint. They point to a new spirit of cooperation and unity of views between Congress and the Administration. The potential for less restrictive authorization and, hopefully appropriations legislation, has created quite a sensation within the Agency. I share this enthusiasm. We need a solid legislative base -- and continuity of Congressional support -- to be able to function effectively.

The Foreign Assistance Act is now 28 years old. Once written in straightforward language, this law has been amended over the ensuing years to the point where it stretches to 240 pages and contains so many detailed budgetary and programmatic directives that, from an operational point of view, it translates into gridlock.

If we are to be of real assistance to developing nations, we need to wipe the legislative slate clean and put in place legislation that will help us do that job. To get back on the right track, we need to rewrite the Foreign Assistance Act. The bill we need is one that says, in simple ways, that the purpose of U.S. economic assistance is to foster sustainable, broad-based economic growth in developing nations, and that the kind of development we want to see evolve will benefit all segments of society, not only the few:

-- It will enable developing countries to confront demographic shifts;

-- It will create opportunities through which the poor can benefit from individual initiative; and,

-- It will lead to rising incomes, and as national -- and individiual incomes rise -- essential health and education services will become more readily available to the poorest.

While I believe that we need to rewrite the the Foreign Assistance Act reasonably soon, I do not believe we can do that job well if we try to do it at a breakneck pace. The process begun by the House Foreign Affairs Committee is an important first step and I know you share my interest in the final product, which is now being marked-up on the other side of the Capitol. The next phases, as I see them, involve:

-- Talks between the House and the Senate Authorization Committees on the outcome of the year-long HFAC rewrite process;

-- Discussions among the many departments and agencies of the Administration that deal directly or indirectly with our foreign assistance on the HFAC legislation; and

-- Finally, for talks between Congress -- particularly this Committee -- and the Administration on how we can combine forces to produce a new foreign assistance act.

These are the steps we need to take to produce a sound new bill -- a bill that will represent this nation well. This Administration is ready to take an active role in building a new consensus on foreign aid.

This Committee is well prepared to engage in this process, having served as a catalyst to our reconsideration of the Foreign Assistance Act by way of the hearings Chaired by Senator Kassebaum four years ago. Moreover, the creation of our Development Fund for Africa -- another catalyst to the current debates on foreign aid reform -- was attributable in large part to the efforts of the members and staff of this Committee.

As you review the HFAC legislation, I would like to draw your attention to a few of the underlying precepts of this exercise which respond to longstanding Administration concerns. Many of those who have reviewed the current status of the foreign assistance program have noted that our effectiveness could be greatly enhanced by: increasing flexibility by deleting earmarks, removing functional account restrictions, and reducing required program change notifications. Movement in this direction would certainly be beneficial to our operations. However, we recognize that we must do our part to uphold the trust and confidence implied by these changes; flexibility on one end means accountability on the other.

In this regard, I should underline that we are at least as concerned with A.I.D.'s programmatic and managerial effectiveness as you are. We believe that we have internalized this concern and improved to some degree already. For example, our reviews indicate that our emphasis on attacking policy and institutional constraints to growth is correct -- although we are the first to recognize that more improvements are both needed and possible in our programs. Increasingly, we are basing resource decisions and structuring our programs to support good economic policy performance. In Africa, for example, we will continue to concentrate resources in those countries that are facing up to the hard choices that broadly-based, sustainable economic growth requires. Similar concerns for effectiveness are being refined for programs in advanced developing countries.

The wisdom of these approaches is evident in what is happening in many places throughout the world. For example:

- Costa Rica's market-led approach has led to growth rates averaging 3.6% for the last four years;
- In Jamaica, our work has supported tax reforms to lessen the tax liabilities of low-income people while adding incentives for business investment; and
- In Bangladesh, we are embarking on policy discussions about credit access and interest rates that would be attractive to micro and small businesses.

On the implementation issue, we have already improved accountability. We can now track ESF dollars and have made major improvements in our capability to monitor local currency used by host countries as a result of our programs. Each year, all missions prepare a vulnerability assessment to guard against fraud. Audits and evaluations are also being used more and more as management devices to increase programmatic and managerial effectiveness. Mechanisms are in place -- and will be strengthened as possible -- to assure that responsibility follows decision-making authority.

We are eager to work with this Committee, to craft legislation which helps us make optimal use of scarce economic and security assistance dollars. We share your concerns about what we do and how we do it.

III. FY 1990 BUDGET REQUEST

In presenting the first budget to bear a label for the decade of the 90's, I feel a special responsibility to go back to basics. We have a crucial decade ahead of us. We must lay the groundwork for a far more effective assistance program. We will continue to call on the talents and resources of U.S. private voluntary organizations and cooperatives to help us make sure that our assistance is applied effectively at the village level. Most of all, I want it to be a program that the American people endorse and to which they give their full cooperation.

If we are to address the emerging challenges in a manner that is responsive to our foreign policy objectives and carry out our mandate in an effective way, the right level and mix of resources will be required. Without an adequate level and mix of resources, opportunities will be missed. Monetary resources are not enough; human resources are an equally important part of the equation. The presence of on-the-ground, experienced teams of development professionals is essential.

You have our Congressional Presentation for FY 1990. In brief, the Administration is requesting an authorization of $5,926,978,000 and an appropriation of $5,967,125,000 for FY 1990 bilateral economic assistance programs. The authorization does not include $40,147,000 for the Foreign Service Retirement and Disability Fund. The request encompasses assistance for both Development Assistance and the Economic Support Fund. While the request is a nominal increase of some 2% in Development Assistance and 3% in ESF, it represents a continued decline in real terms. Our request is designed to meet the most critical foreign policy and development objectives -- assuming adequate programming flexibility and rigorous concern for the effective application of these resources.

The most notable feature of our budget request is its consistency with previous year requests and appropriations -- only slight changes are sought in account levels and in the overall balance of our program. Nevertheless, I am convinced, like many of you, that various features have to change. We cannot, in this period of great change, remain tied to what I believe are outmoded ways of operating. We cannot continue to operate under the static ways imposed on us by the traditional functional account structure, compounded by the earmarking that does not permit me to support my managers in carrying out their jobs. They cannot devote their time and their staffs' time to juggling account availabilities against needs and notifying Congress of insignificant changes in our plans. And earmarking, even though done for the best of intentions, just makes things worse.

Although the Development Fund for Africa is new, I believe it has already shown that we can be more responsive to new opportunities and be more effective in the process. I want to change the focus of my attention -- and your attention -- away from inputs so that implementation and achieving the results we want from our programs become paramount. I want to work with you on this.

In making this presentation, I should point out that all the program resources we receive -- Development Assistance, Economic Support Fund and PL 480 -- will be used to the maximum extent possible for Development Assistance purposes, within the framework of our overall international economic and political objectives. Although Economic Support Fund and food assistance resources are justified to Congress and within the Administration for a variety of purposes, A.I.D. can and does push to have their uses determined according to their contribution to development.

You will note that part of our budget request for this coming fiscal year -- operating expenses -- is greater than in the past. This is due primarily to three factors. First, it contains funding to restore our on-board strength to authorized levels. I imposed a partial hiring freeze last year, which continues today, so that we could adequately support the personnel we did have. In addition, however, our workforce must also be strengthened qualitatively if we are to respond effectively to the changing world environment. The American people entrust us with sizable amounts of their tax dollars. We are held accountable for the uses of these dollars, ensuring that they are spent wisely and that any misuses are quickly discovered and corrected. To do this, we need to restore our workforce levels, both in the field and in Washington. Our request will permit us to do that. Second, and this has greater importance in dollar terms, we must fund changes in the Foreign Affairs Administrative System mandated by Congress. Third, we have to build into our budget the impact of the January pay raise and continuing cost increases associated with the new Federal retirement systems.

Finally, I should draw your attention to two new items in our budget request:

> Within the functional development assistance accounts, $20 million will be devoted to an innovative program to facilitate the increased provision of social services by the private sector.
>
> We are also introducing a new account -- "Special Assistance Initiatives" -- for which we seek $200 million. These funds will be used to provide extraordinary assistance to support structural adjustment efforts in democratically governed developing countries. During the first year, we plan to use these resources for the initial U.S. contribution to the Philippines Multilateral Assistance Initiative.

I believe that our budget request represents a tight, focussed, coherent program which will enable us to pursue economically sound and sustainable development goals. I hope that you will join me in responding to the exciting challenges before the American foreign assistance program.

Mr. Chairman, I will be happy to take your questions.

The CHAIRMAN. Thank you very much indeed, Ambassador Woods. I have a couple of similar, diversified questions. The first one involves UNEP—the United Nations Environmental Program. The administration requested $8 million for that this year, which is a 16-percent reduction from the present amount available. I realize earlier the administration sought to zero fund it, so obviously $8 million is an improvement over that.

I was wondering, in view of the emphasis that the Secretary of State and the President have placed upon global environmental issues—international environmental issues—as being high on the foreign policy agenda of the administration, why would the administration recommend a decrease in UNEP?

Mr. WOODS. First of all, Mr. Chairman, I have to say that the UNEP portion of the budget is dealt with not by AID but by the State Department's international organizations bureau.

The CHAIRMAN. Right.

Mr. WOODS. So, I cannot fully respond to your question. I can say that AID's spending on environmental matters has increased substantially year after year, and it will do so again in fiscal year 1990.

I would assume that the judgments being made by the people dealing with the UNEP budget involve considering the effectiveness of funding for an international organization versus what we might be able to do ourselves, but I cannot say that with any absolute certainty.

The CHAIRMAN. Perhaps one of the reasons why you are doing more than you did in AID is my amendment, which I think calls for consideration of environmental factors in AID programs abroad. Are you familiar with that amendment?

Mr. WOODS. I am familiar with that amendment. I can say to you, Mr. Chairman, that I believe we have at least met the guidelines of that amendment and I hope gone beyond it.

The CHAIRMAN. Good.

Mr. WOODS. We have a two-step process in dealing with environmental matters. We have an initial look to see what the environmental impact might be. If the environmental impact is viewed to be "consequential"—and I use that term rather than substantial, because it is a lower standard—then we embark upon a second level of investigation into what we are planning. So, we have really inculcated the importance of environmental sensitivity into virtually all of our activities.

The CHAIRMAN. I thank you very much. Along the environmental line, there is a program that President Bush recently announced—Nature Swaps—as part of the economic aid program for Poland. I was curious if you had a reaction to that.

Mr. WOODS. I have not seen the details of on Poland. We, of course, have been involved in development-for-nature swaps and in development-for-environment swaps for some time. The most current one we are involved in is with the World Wildlife Fund, in which we are undertaking a swap opportunity in the Philippines.

The CHAIRMAN. Thank you. I believe about a third of the Senate has cosponsored the Global Poverty Act which directs the President to establish a plan whereby specific targets would be met to reduce infant and child mortality, to increase female literacy and reduce the level of poverty by the year 2000. Do you have a reaction to this legislation?

Mr. WOODS. I do, Mr. Chairman. I have some great concerns about that legislation. Let me see if I can, in a few words, point out what they are. Quite frankly, I could go on for some time about the issues it raises.

The name of the act, which I firmly endorse the concept behind, is the Global Poverty Reduction Act. One of the findings—and probably the most important finding, I felt in the development of the national interest is that although we have alleviated poverty in the world in recent years, we have not been very successful in reducing it and that we in fact need to focus more on the reduction of poverty.

My problem with the bill as drafted is that two of the three indicators that are used basically are indicators which are poverty alleviation activities, which we frankly have been undertaking for some decades now. We have seen, in fact, dramatic drops in infant mortality.

We have not seen the kind of female literacy increases that we would like to see, but AID now has developed a strategy for the education of girls and we think that is probably a more productive use of funds than trying to deal with adult literacy questions, which is a very expensive proposition and quite frankly where in many places you reach much more resistance than you do in educating girls. So, those are two issues which really are directed more toward poverty alleviation.

The third indicator in the bill deals with the question of absolute poverty, which I think is an appropriate indicator for poverty reduction. It is something which we very much need to address and need to be focused on more clearly.

Finally, there is language in the bill which says that all of our resources should be directed toward fulfilling the purposes of those indicators. Well, you know, that means we do not do a lot of things we do now, if we direct all of our resources toward those indicators. So, it is a very distorting sort of bill.

I can endorse its spirit. I can even endorse the indicators as being things we would like to achieve. But the way the bill is drafted I think is problematic.

The CHAIRMAN. Thank you for giving us your views on this.

The current law mandates no less than 13½ percent, but up to 16 percent, of the development assistance economic support fund obligation to be channeled through the PVO's. What percentage of these accounts would this $392 million request represent?

Also, along the same line, although AID has exceeded the mandated minimum for PVO's in recent years, I am thinking that we perhaps should raise the PVO floor to 15 or 20 percent and that the target be raised up to 25 or 30 percent. What would your response to that suggestion be?

Mr. WOODS. Let me say this, Senator. AID could not operate without private voluntary organizations. They are hands and arms in so many places in the world. It is terribly important that the agency have a very intimate relationship with private voluntary organizations.

I think of the work that they are doing in two very critical places right now: in the Gaza West Bank area on the one hand, and Lebanon on the other, where we just do not have the ability—would not have the ability to operate without them.

I think of the work that they are doing in Sudan and the success, in fact, that went largely unrecognized of a year ago, of avoiding the same kind of famine and circumstance that we had in Ethiopia in the 1984-85 period when the situation, frankly, a year ago was in many respects much worse than it was in the earlier period, and the PVO's were basically our operators in those circumstances.

Many of the PVO's are getting into many more diverse areas. They are expanding their horizons from what they once were. The PVO's, as you will recall, were basically relief organizations in their initial inception, for the most part, and they have expanded far, far beyond that.

There is one PVO, for example, that basically does nothing but management now. It is up in your part of the country. I do not think it is in Rhode Island, I think it is in Connecticut, but it is an outstanding organization.

So, I think that what will occur with the PVO's, if we will allow it to occur, is just a constant expansion of their use and I do not think—it does not seem to me that there needs to be targets or guidelines set artificially for that.

It is going to happen. It is happening. It has, as you point out, happened as time has passed. There has just been greater use of PVO's and that is an unstoppable force as far as I am concerned.

The CHAIRMAN. Thank you very much. Senator Kassebaum.

Senator KASSEBAUM. Thank you, Mr. Chairman.

First, I would just like to say, Ambassador Woods, I think you have done really quite an extraordinary job at AID and in this report that the Agency has made in trying to focus attention on management and overall analysis of ways to improve the delivery of our international assistance, and I salute you. It is not an easy task and when you say the top priority is management, I think that is so true no matter what direction one goes in aid progress.

I would like to ask some diverse questions, beginning with Lebanon and the State Department's declaring Lebanon a disaster area. Maybe in the earlier part of your statement you did address this, which I missed. If so, I do not want to repeat it. But exactly what does this entail and having declared it a disaster area, what will be the further implications in the designation of that?

Mr. WOODS. Well, it will make additional food available for use in Lebanon and that is the critical commodity there right now.

I have to say, Senator Kassebaum, however, that our problem is not really the availability of commodities, our problem is the capacity we have to deliver them.

Most of our "clients," as it were, are in Beirut, and we were delivering food through the private voluntary organizations directly to families. In fact, I believe something like 25 to 33 percent of the families in Lebanon were receiving food from AID programs, a huge, if not even arguably, over dependent circumstance.

Today we are not able to do that in Beirut, although we are in much of the rest of the country and that program continues. And so what we are doing is delivering food to institutions, which are also in need: orphanages, hospitals, places where large numbers of people might gather and be able to make use of it.

But our basic program of getting food to families is just not possible to operate in the terrible warlike circumstances that are going on in Beirut right now.

Senator KASSEBAUM. Is not one of the real shortages hospital supplies and water and fuel? And again, I am sure it is the delivery system that is a problem. But if we had any means of analyzing the effect, I think nearly all of the hospitals have been shelled in Beirut.

Mr. WOODS. I understand that virtually all of them have been shelled to some extent or another; yes, that is right.

Senator KASSEBAUM. Have you looked at the possibility of being able to give some assistance, I do not even know what is involved, in sending, say, a hospital ship like HOPE I believe has a hospital ship, does it not?

Mr. WOODS. It does not exist any more, I am sorry, Senator.

Senator KASSEBAUM. Oh, it does not?

Mr. WOODS. No, it has not for some years.

Senator SIMON. I did not know that either.

Mr. WOODS. Project HOPE still exists.

Senator KASSEBAUM. Yes, I knew that.

Mr. WOODS. But the ship is no longer in service.

Senator KASSEBAUM. Well, is there any alternative means? I mean, the French have had a hospital ship there; have they not?

Mr. WOODS. Yes, I believe it was unable to operate and had to withdraw. The U.N., most recently, has been trying to make arrangements for something like that to come in and take place, but I do not believe they have, as of yet, been able to be successful in doing that with all the parties that they must be successful with for such a ship to be safe.

Senator KASSEBAUM. Is this something that, with these funds designated because of it being a disaster area, we can help achieve in some way?

Mr. WOODS. Potentially so. Again, it is the safety of the operation, the ability to perform the operation in a manner which is reasonably safe, which would allow us to do so.

Senator KASSEBAUM. I would like to jump now to Sudan for just a moment.

Mr. WOODS. If I could just expand on Lebanon. The tragedy of that situation is almost unimaginable to the mind, at least to mine. We are looking in virtually every nook and cranny to try to find ways in which we can provide some sort of assistance. There are not many.

Senator KASSEBAUM. That is why I asked about the hospital ship, because I had thought, in earlier reports, the French were there but not able to get into port, but they were bringing people out to the ship for treatment.

Mr. WOODS. That is what they tried to do, but the ship was threatened and I believe it has left. It was only there for a day or so.

Senator KASSEBAUM. I am sure, you know, you have the full support of everybody in whatever means could be found to be of assistance there. It does get very frustrating on how to be able to get assistance in.

In Sudan, where I think we have done a very good job of trying, as you say, to provide early assistance to work very hard to get food placements positioned so that people could get through difficult times, there have been some questions, I guess. The New York Times had a piece last week, or on the 15th, saying that they were running into political and logistical problems.

I wondered if you could comment on those at this particular point? Because it was my understanding that things were going relatively well there.

Mr. **Woods**. You can proceed relatively well and still have political and logistical problems. That describes the situation in Sudan to some degree. We are getting food in, but necessarily in the quantities we would like. Deliveries have gone reasonably well, through the more recent months of the program. We continue to operate our program, which began 2 years ago.

Not only are we operating through our own private voluntary operations to supply food, we are providing food to other organizations, which are also getting it in.

There is a distinct lack of transportation facilities to move food. That is a bottleneck. And, of course, you have the Government of Sudan on one side and the Sudanese People's Liberation Army—SPLA—on the other. We recently had a circumstance where a group of bandits associated with neither group attacked a food convoy—in fact, the first U.N. convoy. So it is a very difficult situation.

I think everybody is doing the best job they can. There are a lot of heroes out there, as far as I am concerned. It is a very, very tough job. I think it is safe to say that the circumstances of this year will be repeated next year, and, having had the experience of this year, we will be in a much better position to deal with them.

But it is tough out there. I have watched the U.N. program start up, and I have also listened to criticism of that program. Our own program is going reasonably smoothly now. The U.N. program is in the startup mode. For that reason, it has not gone particularly smoothly. That is no surprise; that was our circumstance when we were in a startup mode.

Senator **Kassebaum**. Well, I have run out of time, and I was just getting to foreign aid reform. I will wait until the next round.

Mr. **Woods**. As long as we are both for it, Senator.

Senator **Kassebaum**. Yes.

The **Chairman**. I agree with you. Thank you very much, Senator Kassebaum.

Senator Sarbanes.

Senator **Sarbanes**. I would defer to Senator Simon.

The **Chairman**. Senator Simon.

Senator **Simon**. I thank my colleague from Maryland.

As I go over the statistics, if my very rough math is correct, we are asking for 7.4 percent of the aid for Africa. Is that approximately correct?

Mr. **Woods**. That is about the right range, but I believe it is closer to 12 percent.

Senator SIMON. Does that strike you as a figure that is lower than it should be?

Mr. WOODS. Well, Senator, I have been looking at the absolute numbers in Africa. We have been increasing our assistance every year, as you know. We are now getting more effective in our use of funds in Africa. This is as a result of the development fund, I believe.

Should there be more funding in Africa? Well, yes. But there ought to be more funding in Central and Latin America. And we have asked for more funding for the Philippines.

I have a hard time making those kinds of judgments in comparing one region of the world against another.

Senator SIMON. I understand the difficulty here. But as you weigh the needs of a world, it does seem to me that Africa deserves a little more than 7.4 percent.

Mr. WOODS. Well, one has to look at other things also. If I understand the data you are using, that reflects our request for the development fund and ESF.

Senator SIMON. This is what I have fiscal year 1990 U.S. economic and military assistance request. And it covers everything. And I go down here to the total and I just calculated the total. Now, my math may be incorrect, but it is somewhere around that.

Mr. WOODS. Of course, the U.S. military assistance request for that continent is quite low.

Senator SIMON. I Understand. But even if you take out the military side, it maybe moves us up to 10 or 12 percent.

Mr. WOODS. Actually, if you take the DFA, ESF, and Public Law 480, it is about 12.7 percent. This figure does not take into account use of emergency funds, which would make the number higher. Our spending in Africa turns out to be about $1 billion a year.

Senator SIMON. About how much?

Mr. WOODS. $1 billion. When you take into account emergencies in Sudan, Ethiopia, Mozambique, additional funds for fighting locusts, and other smaller natural disasters, we get a number very close to $1 billion a year.

Senator SIMON. I do not know what the right figure is, but I guess, as we talk about reform, and you and Senator Kassebaum were just reflecting on it, it does seem to me that we ought to be stepping back and saying, what is rational, not just what we have done, but what is rational in terms of world needs today?

Mr. WOODS. I think you also have to take into consideration that Africa receives over 30 percent of total donor assistance in the world, about one-third. The European Community and the European countries, specifically France and Italy and Germany, focus the bulk of their donor assistance in Africa.

One should not consider just what our program is doing in Africa, but what others are doing as well. That is one of the reasons why the whole issue of donor coordination, of maximizing the use of everybody's funds, becomes such a critical issue.

Senator SIMON. I guess my concern is that some of the nations traditionally have been, because of colonial ties, have been assisting or diminishing somewhat, and I do not see that replacement role.

I would just urge you and your colleagues, as you look at this whole picture, to try to step back a little bit. I am not sure what the answer is when you step back, but I think it is one of the things that we ought to be doing.

Ideally, when you are talking about reform, you are talking about greater flexibility. And that means what, presenting a budget that does not have the kind of details that we have here? What are you talking about in theory? If Alan Woods could just be up here and just write whatever legislation you would want in the way of AID reform?

Mr. WOODS. I would address a whole series of issues, and that would take quite a bit of time. But let me focus on some key ones.

I would eliminate the functional accounts, as we have done in the Development Fund for Africa. We are now operating in Africa without functional accounts, and I think that is working well. And I think, for the most part, congressional staff who have looked at our operations there are pleased.

And so that would be No. 1.

No. 2, is a reduction of earmarks. We are overburdened with earmarks. When I sit down in the fall, after the budget is passed, I find I have very few decisions to make. This is due to the combination of being locked into functional account levels as well as earmarks.

I find that I am making irrational decisions because I have, for instance, left over funds for education, and it can only go, say to Costa Rica, which already has 102 percent of its children at the primary level in school. There are a lot of places in the world that need funds a lot more than Costa Rica does, but I am boxed in. We are trying to maintain a certain level in Costa Rica, yet I am forced to raise it because of earmarks and the functional accounts structure.

It seems to me the key issue in reform is that we have to increasingly focus our program on a country-by-country approach. I say to the people in AID, and so often that they are getting a little bored with it, that every country is like a fingerprint, it is different from every other country.

One cannot take a global approach, because Bangladesh is different than Mali; and the Philippines is different than Bolivia. Therefore, we have to focus on what makes sense in an individual country. We will have a lot more effective program if we do that.

The way the program is currently structured, there is a lack of flexibility to allow us to do that. We are really very much constrained, Africa being an exception, from taking that approach now.

Senator SIMON. Well, when you end up with your final appropriation, how much of that money do you feel you really have some flexibility with, in percentage terms?

Mr. WOODS. I would going to say less than 10 percent.

Senator SIMON. You mentioned the Africa fund, I notice that SADCC is not listed separately.

Mr. WOODS. It is covered under the DFA.

Senator SIMON. When I look at it I wonder, is SADCC going to get the money? And that is where the earmarking comes from.

Somehow if we can have some kind of assurances, I guess then we do not need to earmark.

Mr. WOODS. I would say watch our performance. The money is going to go there. That is the key, it seems to me. It is that the Congress oversee, in an appropriate way, as it should, what we are doing. And if you do not like it you can tell us about it and get us to change it.

But we have been operating under this particular Foreign Assistance Act for 28 years. I compare it to coats of paint on a building. Every President and virtually every Congress has added a new coat of paint and remodeled the rooms inside. Some of the bedrooms are too small to lie down in now. This issue needs to be addressed in a major way.

Senator SIMON. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Senator Pressler.

Senator PRESSLER. Thank you very much, Mr. Chairman.

The CHAIRMAN. Excuse me very much. I would add that there is going to be a rollcall vote at 11:30, followed immediately by another one at 11:45, so I just wanted to let everybody know that.

Senator PRESSLER. I think you are doing a good job of managing these programs. I know that you are one of the people the Bush administration has decided to keep, one of the few that they did not change over, which I think is a compliment to you.

I noticed a 3.2 reduction in your request for the agricultural area; why is that?

Mr. WOODS. I do not know the specific numbers you are looking at. So Part of it is a matter of trying to operate, Senator, a balanced program.

However, we have increased our request by $16 million from our request in fiscal year 1989, one of the largest increases we requested for any functional account. I will grant you that that is a reduction from the appropriated amount in fiscal year 1989.

Senator PRESSLER. Now, in the South African aid program, has the United States yet made any payments to the victims of "necklacing" in South Africa as provided in the Comprehensive Anti-Apartheid Act of 1986?

Mr. WOODS. I will have to get back to you for the record on that. I am not up on that at the moment.

Senator PRESSLER. I would appreciate that.

[The information referred to follows:]

SOUTH AFRICAN VICTIMS OF VIOLENCE

Section 202 of the Comprehensive Anti-Apartheid Act provides $175,000 in assistance each year to "families of victims of violence such as 'necklacing' and other inhumane acts." For the purpose of implementing this earmark, this clause has been interpreted as covering all victims of violence resulting from internal strife within South Africa.

This decision reflects, in part, a decline in the number of necklacings. Prior to June 1986, there were over 200 victims of necklacing. In the latter half of 1986, there were fewer than a dozen cases. In 1987, there were fewer still, and to our knowledge no cases in 1988 or 1989.

Given the administrative burden of providing assistance directly to individual victims and their families, and to ensure the most comprehensive coverage, AID has each year implemented this program by providing the funds to organizations actively working in relief activities. To ensure that this humanitarian program is not viewed in political terms, AID has chosen these grantees for their ability to identify, independently, impartially and on the basis of strict neutrality, the categories and number of people who should benefit from these programs. In fiscal year 1987 and fiscal year 1988, the full $175,000 earmark was obligated to the South African Red Cross Society and the International Committee of the Red Cross to provide assistance to victims of violence. All of the funds were allocated for direct assistance to such victims; none of the funds is used for overhead costs. We do not have data available on individual beneficiaries of this assistance.

Senator **Pressler**. One thing I was very interested in when I was in the Army in Vietnam was the distribution of motor pumps for irrigation. It probably seems like a minor project, but it amounted to a major operation before they were finished. Thousands of small motor pumps were distributed in the Delta in South Vietnam. Last year I saw several still working in that area—20 years later.

What kinds of water development and irrigation projects are now financed by AID? Do you favor the larger projects, or do you still have some motor pump distribution, things as mini as that?

Mr. **Woods**. Actually have both large and small activities.

[The information referred to follows:

Most irrigation related projects are now subactivities under agricultural production projects. We have found this closer linkage to production results in more efficient and effective water management programs. Most of the systems we have been involved with in recent years use gravity-fed systems; only a few use pump lifts or sprinklers. Gravity-fed systems are more cheaply and easily built and maintained by the local populace in most countries where we work.

Unlike earlier years, where we were heavily involved in constructing irrigation systems, we now focus for the most part on assistance and training directed toward host country farmer design and maintenance programs, with a goal of helping preserve soil and water resources for sustained agricultural development. Major irrigated areas of India, Pakistan and Sri Lanka are benefiting from a 20 percent increase in water availability, at the same time with reduce detrimental effects on the environment, under one of our centrally-funded programs.

Mr. **Woods**. For some numbers of years, we have been rebuilding the sewage and water systems of both Cairo and Alexandria, Egypt. So much so, that when I go to Egypt now, I tell people I would like to see something other than a sewage plant. Where we have the types of funding that we have in Egypt, we are dealing with big programs.

We also have a smaller program, the WASH program, which deals with water and sanitation and addresses improved health conditions through small scale activities.

[The information referred to follows:]

Technical support is provided to field missions, host country officials, and quite frequently private voluntary organizations, as well as international organizations such as the World Health Organization and the Pan American Health Organization. Assistance is focused on establishing financially self-sufficient water systems, considering cost recovery, tariff structure and providing some training for institution building, with a concentration on community involvement.

Senator **Pressler**. Describe some of the prosthetics programs, how much is AID putting into this? I think these programs help crippled people, people who are missing a limb. That is something that we can perhaps do a lot of public relations on and also help people a great deal. Do we have prosthetics programs?

Mr. **Woods**. We do. The fiscal year 1989 appropriations bill provides that up to $5 million may be available for prosthesis for civilians injured as a result of civil strife or warfare. Actually, we have budgeted $5.4 million in our fiscal year 1989 budget for prosthesis. So, our funding for prosthetic programs this fiscal year will exceed that amount by about $400,000. We are funding $44.4 million of that for two new startup countries—a 3 year program in both Uganda and Mozambique. Ongoing programs in El Salvador, West Bank-Gaza and Thailand are being funded at $982,000.

Senator PRESSLER. How many countries are in danger of losing U.S. aid this year because of their failure to repay loans to the United States?

Mr. WOODS. It is hard to tell. I can think of two that are in deep trouble in that respect. As is the case every year, there are others that are on the edge, but undoubtedly, as in the past these countries will be able to make arrangements before falling under Brooke sanctions.

Senator PRESSLER. Does U.S. foreign assistance give the United States much leverage over the AID receiving countries? Of course, we would not have that as a policy goal, but I think our citizens expect that we get something out of this other than helping the development process. That is certainly an honorable objective and should be our principal objective, but what else do we get out of AID besides helping in the development area?

Mr. WOODS. In many respects, I think Ambassador Bartholomew, who will be before you a little later this morning, is better situated to deal with the foreign policy questions.

Obviously the primary thing that would come to mind given the huge outlays that are involved, is the funding that we have in Israel and Egypt. This is connected with the Camp David accords, which has resulted in peace between the two major powers in the Middle East. There has been no outbreak of hostilities; and, in fact, recent negotiations have resulted in the transfer of land from Israel to Egypt which had been in disputes. This was done through negotiation and arbitration, as opposed to fighting over it.

Obviously, through the use of our ESF funding, we also have substantial benefits with regard to U.S. base rights and military needs.

Senator PRESSLER. You mentioned Uganda and Mozambique in response to my question on prosthetic devices, would Afghanistan be a better country for starting a new program, or do we already have such a program there?

Mr. WOODS. Under the McCollum Amendment we already have a program utilizing Afghan relief flights to bring Afghan patients to the United States for prosthetic devises, which are provided gratis.

Senator PRESSLER. OK. How is it going?

Mr. WOODS. That has been a pretty good program. One of our concerns is that the program is, unfortunately, going to expand. As you undoubtedly know, there are thousands of land mines laying around all over Afghanistan, and antipersonnel mines of one form or another.

Problems are likely to occur when the Afghan people—those who are refugees now outside Afghanistan or who have moved to other parts of Afghanistan—begin to return to their homes. Although a major effort will be made to clean up those mines, I am afraid that that effort will not be totally successful.

So one can envision that there will be a substantial problem in the future in Afghanistan. Children will probably step on those mines. Many of them are small devices and look like something one might want to play with—not a more traditional land mine which would be underground. These smaller mines are laying on top of the ground in many places.

Senator PRESSLER. If you were to make one principal argument in justifying our foreign aid program to a taxpayer, what would that be?

Mr. WOODS. I would say that our foreign aid program benefits us. It doesn't benefit only the people in developing countries.

If you look at the nature of the world now and as we look toward the future, the markets for American products in Europe are mature markets. The populations of those nations are not growing and are not likely to grow.

If you look at Japan, that is a mature market. The same is true of our developed country neighbors in Canada and most of the other OECD countries.

The future markets of the world, the future of where American jobs will grow as we export products from the United States—and I include among those products agricultural products—are in the developing countries. These countries are going to increase their population in the next 50 years by something like 8 billion people. To the degree that we have helped those countries economically, to the degree that we have proven ourselves to be a good neighbor, we are going to be able to take advantage of those markets.

It is not a very altruistic view of the world, Senator, but it is, I think a very important one for the American people to hear.

Senator PRESSLER. Thank you.

The CHAIRMAN. Thank you very much indeed.

Senator Sarbanes.

Senator SARBANES. Mr. Ambassador, which of the functional accounts is it that you want to do away with?

Mr. WOODS. All of them.

Senator SARBANES. Within AID, the ones that you have; is that correct?

Mr. WOODS. That is correct.

Senator SARBANES. So, you would not have money appropriated for population programs or health programs or education programs?

Mr. WOODS. That is correct.

Senator SARBANES. And how much less money do you think you could take and do the job with if you did away with those accounts?

Mr. WOODS. Oh, I would like more still. It is hard to say. We have been operating the Development Fund for Africa for less than 2 years, so we are not able to fully assess the long-term efficiencies of operating without functional accounts in a way that is satisfactory for me to answer.

I do not think, however, it is a matter of operating with less money. The requirements for foreign aid funding, regardless of whether we have functional accounts or whether we don't, are far beyond any funds that have been appropriated in recent years. The improvement is in the efficiency of the use of that funding so that it can more closely focus on country needs.

Senator **Sarbanes**. Does your proposal reach programs like housing guarantees and international disaster assistance and American schools and hospitals? Would you eliminate all of those accounts?

Mr. **Woods**. I do not see the need for any of those accounts. That does not mean those programs would not exist. I want to be precise about that.

There would still be an American schools and hospitals program. We would still have a disaster assistance program. We would have to fund these programs.

Now, the disaster assistance program is a line item. But we usually end up borrowing from the rest of the Agency through the course of the year for unanticipated emergencies.

Senator **Sarbanes**. You just want a lump sum appropriation?

Mr. **Woods**. I would prefer a lump sum appropriation, but I am prepared to talk about other modes as well.

Senator **Sarbanes**. So, if anything were spent for assistance on American schools and hospitals, it would be your decision on the use of the lump sum for that purpose, is that right?

Mr. **Woods**. Yes, but it would be done in close consultation with the Congress and with congressional oversight.

Senator **Sarbanes**. How does that differ from having a line item?

Mr. **Woods**. It differs quite a bit. What I find as I am dealing with our budget is that with the functional accounts we are forced to make decisions which are not necessarily in the best interest of individual countries.

Senator **Sarbanes**. When you say functional accounts, I want to know what you are referring to?

Mr. **Woods**. I would be talking about agriculture and other sector specific accounts.

Senator **Sarbanes**. Are you talking about all the accounts in the bilateral assistance when you say that?

Mr. **Woods**. Basically, yes. I am talking about the agriculture account; the private sector, environment and energy account; the education and human resources development account; and the population planning account. I mean, you can go on through the rest of them as well.

Senator **Sarbanes**. How about these other accounts? American schools and hospitals, loan guarantees, humanitarian relief, housing guarantees, are you talking about those as well?

Mr. **Woods**. Yes. The loan guarantee is set up in a different way, so that it is not really an account in the traditional sense. Guarantees or guaranteed funds would have to be dealt with somewhat differently.

Senator **Sarbanes**. Now, which earmarks are you talking about doing away with?

Mr. **Woods**. In principle, again, I say all of them. However, I think the reality is that the Congress is going to express its will on occasion through the use of earmarks.

Senator **Sarbanes**. Are there earmarks within the AID budget?

Mr. **Woods**. Oh, certainly.

Senator **Sarbanes**. Which earmarks there are you talking about?

Mr. **Woods**. We have—let me just get a number here.

[Pause.]

Mr. **Woods**. Over 98 percent of the ESF account has been earmarked for this fiscal year.

Senator **Sarbanes**. But is that your budget?

Mr. **Woods**. Well, we manage that budget, yes, sir.

Senator **Sarbanes**. How about the development budget? Do you have earmarks there?

Mr. **Woods**. We have earmarks, directives, and restrictions that appear in report language or specific earmarks in legislation that have amounted to as high as 57 percent of the DA account.

Senator **Sarbanes**. What kind of earmarks are we talking about?

Mr. **Woods**. Earmarks for the use of vitamin A, earmarks for Ivermectin, earmarks for the percentage of the education account which must be used for basic education, which, I might add, cuts into our participant training program.

Senator **Sarbanes**. So, you are talking about program earmarks, not country earmarks?

Mr. **Woods**. I am talking about program earmarks when I talk about the DA account, yes. We have very few country earmarks in the DA account.

Senator **Sarbanes**. You have an African earmark, you have a continent earmark.

Mr. **Woods**. I am sorry?

Senator **Sarbanes**. You have a continent earmark with the Africa account?

Mr. **Woods**. We have a continent earmark in that sense with the Africa account, yes, but one which we supported.

Senator **Sarbanes**. So, would you want continent earmarks for your other accounts or do you want not to be tied down that way, too?

Mr. **Woods**. I would rather have a global account. But, as I said, Senator, in the course of working out legislation, I am prepared to talk about other options.

Senator **Sarbanes**. I understand that.

But I am interested in what your concept is.

On the development assistance, the request is for $2.4 billion; is that right?

Mr. **Woods**. That is right.

Senator **Sarbanes**. OK. Now, your concept, if you had your druthers, is that we simply give you $2.4 billion as a lump sum; is that correct?

Mr. **Woods**. With some of the types of guidance that go along with the development fund for Africa.

Senator **Sarbanes**. What does that mean?

Mr. **Woods**. I refer to the points that relate to our reporting back to Congress and the nature of our relationship with Congress in terms of how the development fund is working.

As I said to Senator Simon, I think most of us who have been dealing with that new program have been pleased with the outcome of that.

Senator **Sarbanes**. On a broader scale, you would like $2.4 billion and then it would really be up to you as to how to spend it for development assistance; is that correct?

Mr. **Woods**. That is correct.

But I think on the back side of that, Senator, is the increased congressional oversight over what we are doing, and I would encourage that, too.

Senator SARBANES. But the decision on how to spend it would be your decision?

Mr. WOODS. The initial decisions; yes, sir.

Senator SARBANES. Are you advocating the same approach throughout the foreign assistance budget?

Mr. WOODS. I only deal with my portion of the budget. I have only focused on the AID budget in that respect.

Senator SARBANES. What is your view on the ESF, that that should be given to you as a lump sum?

Mr. WOODS. I think the ESF account certainly needs to have more flexibility in the administration for those resources than we have seen in the past.

A 98-percent earmark is a tough one. Concerns could be more appropriately addressed.

Senator SARBANES. That is why you get the funds, in part because of the earmarks. You would not get the funds if there were not the earmarks.

Mr. WOODS. I think that issue would be more appropriately addressed by Ambassador Bartholomew when he is here.

Senator SARBANES. But on the ESF, it is your concept, at least, that you would want those funds not earmarked; is that correct?

Mr. WOODS. That is correct.

Senator SARBANES. So, if we work it all out, you would want about a $6 billion appropriation to AID in bloc, and you would then decide how to spend it; is that correct?

Mr. WOODS. With appropriate congressional oversight, yes, sir.

Senator SARBANES. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Sarbanes.

Senator Mack.

Senator MACK. Thank you, Mr. Chairman.

Mr. Woods, let me compliment you on the work done in this report and some of the comments in it.

For example, countries with more flexible market systems tend to have stronger economic growth. Countries with the least economic opportunities for their citizens were in decline.

I could not help but think of that when I was in Honduras just a few days ago speaking on a kind of informal basis with a number of Honduran businessmen who indicated over and over the problems that they are experiencing because the basic changes had not been made in their economy to make it more open and make it more free.

And then, with the conclusion I drew from the discussion so far this morning, it is with the limited budget that we have to operate with purely the kind of question we ought to be asking ourselves is where will we get the most impact, which I assume are the reasons you have said you would like to do away with functions and do away with the earmarking to give you that flexibility to make those choices about where you would give the greatest impact.

I kind of draw, again, from the report and again from our discussion with the Honduran businessmen that we could have the greatest impact if we would invest those funds in countries that have the greatest economic freedom.

I would be interested in your reaction to that thought.

Mr. Woods. It is certainly true that we can have a greater impact in countries that have greater economic freedom.

The use of the Development Fund for Africa, again, where we have no functional accounts, has been the pilot model for that correlation. Where countries are prepared to undertake economic reforms, which are liberal, which allow their markets to work freely in their economy, which allow the benefits of prosperity—to the degree that prosperity is shared—to reach the broad base of people and society and not be held by some elite, then we have the capacity to put more funding into those countries under the DFA, and we have done so.

In the short time we have been operating the Development Fund for Africa, that has proven to be a very wise set of choices.

In some instances farmers have not been on a big macroeconomic scale. They have been in a specific sector. For example, I can think of a situation in Cameroon where fertilizer was getting to farmers only after the period when they needed to fertilize their crops and, therefore, it essentially was ineffective. We were able to work with the Government of Cameroon to eliminate that barrier, and fertilizers now get to farmers in time for the appropriate fertilization. This has increased agricultural yields. That is the kind of thing you want to have happen.

So, we do not deal only with just the big macroeconomic reforms because, in some instances, we do not have the financial clout to effect those larger changes. We also work with individual sectors of the economy. We have to deal with what we have in terms of our own financial resources.

Senator Mack. Again, going back to the Honduran experience, one of the comments that I made to them was that it sounded like what you were saying to me was that the aid that you were getting from us basically was allowing the government to keep the policies, the bad policies in place. Therefore, our aid was really counterproductive.

I guess I came back with the thought that maybe what we should be doing is developing some kind of economic freedom index, if you will, and go down and look at things such as trade policies and restrictions on investments and capital flows on the size of the state sector, property rights, taxation, banking, wage and price controls as an index, if you will, that we could review as we go through the process.

In other words, if you had this freedom to make your choice of the budget that you have, but at the same time had some kind of index to review the economic policies of a given country, it would be of assistance to you in determining potentially the kind of impact that you would have from the investments that would be made.

Mr. Woods. Yes, but I would not want to be too restrictive about those indices. There are occasions where we have the opportunity where a country has decided to change, has decided to move toward a reform program. Their policies may yet still be very bad or not as good as we would like to see them, but we would want the ability to move in to assist, to help them make those reforms.

I would caution you on one issue. That is, for many of the reforms that take place, there needs to be a cushioning effect for the poor of the population. In many instances we do not have funding to provide that. Where we do not have that funding, it is very hard for us operating as the United States to argue for those policy changes.

If I were to cite Honduras, as an example, the policy change that I see as most critical there would be for them to do something about their exchange rates.

Senator MACK. Let me just following on with that for a second because it is interesting.

Again, the conclusion that I came to just in listening—and this was a relatively short conversation—rather than getting into the specifics because I am not sure I am capable of that detailed a discussion, but if there were the changes in those basic economic policies, that would be positive in the sense of I would assume encouraging a return of capital, a capital inflow to Honduras as a result.

Then, could not our aid be used as the cushion for the very poor. In other words, it seems like there could be a combination there that could take place.

Mr. WOODS. That is exactly the idea.

I do want to make the point with regard to Honduras that there has been significant economic reform there over the period of our AID program. We just have not been able to make progress with them on what I consider a really critical point, their exchange rate. They have resisted devaluation very strongly. I believe they have had a 2-to-1 exchange rate with the U.S. dollar since the country was created, and it is a matter of national pride with them. Among other things, that is one reason for their resistance.

Senator MACK. Just one other area which I think fits into the same situation. Hernando De Soto documents an invisible economy, the individual entrepreneur.

We have identified those areas where growth in essence takes place, but we also see the traditional businessmen, let's say, have been able to use government to hold those folks back.

Is there a way we can directly assist the individual entrepreneur?

Mr. WOODS. There is, and we do that in many places. We have a program where we do that to some degree in Honduras.

Usually it is done through an intermediary organization, a business organization or a chamber of commerce in some instances. But, increasingly our focus has been on microenterprise and small business. It is the microentrepreneurs and the small businessmen that generate the jobs. Many more jobs are generated in this area, if you get into the multiples, than you see with large businesses. Large businesses, on the other hand, are most affected by those changes in policy reform. Small- and medium-sized businesses are as well, but the large businesses are more strongly affected by the broader economic policy changes, and that is also quite important to understand.

I would add one other thing about Hernando De Soto, if I may. Probably one of the better things that AID ever did was give him

$12,000 some years ago to get his program started. That $12,000 was well spent. He has had an impact throughout all of Latin America that is hard to calculate. As you know, his book, "The Other Path," has been and remains, I believe, a best seller in that part of the world. And since it has been translated into English, I see that it is No. 9 on the Washington, DC, best seller list. So, it is getting greater attention.

Senator MACK. Thank you.

The CHAIRMAN. Thank you very much.

Senator Sanford.

Senator SANFORD. Thank you, Mr. Chairman, and thank you, Mr. Woods, for being here and for the things you have been doing, especially for this excellent study and report.

One question that I want to ask sort of bobs up to the top here. It is not dealing with the broader policies that I want to discuss with you later.

Why has AID recommended reducing Costa Rica's ESF funding by a sizable amount, $33 million?

Mr. WOODS. First of all, let me say that Costa Rica is an economic success. It has had for several years a growth rate exceeding 4 percent, per capita. It has a very low infant mortality rate. Its social indicators look good and, quite frankly, Senator, the need is greater elsewhere.

Senator SANFORD. Well, it is also true that they still have an overwhelming debt problem and that they have a foreign exchange problem. They have the buy back problem, and they are certainly not quite out of the woods.

I will not argue that there is great need all over the world, but you have almost got a total success story there, and I would hate to think we had quit just short of success.

Mr. WOODS. The major requirement in costa Rica pertains, of course, with their enormous debt.

As you know, AID funds cannot be used solely to buy back commercial bank debt, and that is what a lot of theirs is.

Senator SANFORD. Well, of course, but it can be used to buy back government-to-government debt. It means a shift of other resources as well.

As I say, that just bobbed up and I thought I would ask. I hope we do keep them on a solid track.

But let me ask you about the International Commission on Central American Recovery and Development. I know that you are familiar with that report.

I just wondered what you thought of it, its possibilities, and to what extent that might play with our future relationship with Central America.

Mr. WOODS. I think the report and the work of the Commission has made a major contribution to the discussion about economic development in that region of the world. It was an important report and I can endorse almost all of their other recommendations. There are two, however, which are of concern to me. I will be very candid with you about this, Senator, and I suspect that is what you want.

One is the emphasis on regionalism. For years we have tried to deal and have dealt with Central American regionalism. Although

I feel that is not appropriate, this understanding has to come from those countries themselves. Our emphasis probably should be more on the countries themselves and their individual problems.

We were talking about the exchange rate problem in Honduras. Until each Central American country rationalizes its exchange rate, it would be very hard to operate, for example, a Central American common market.

In addition, I would say that it seems to me trade among the Central American countries is probably less important than trade from the Central American countries to hard currency countries. They need the hard currency, the foreign exchange that they get from those kinds of exports.

I am not saying that I am opposed to regionalism. I am not. I think it is an evolving challenge however.

Senator **Sanford**. Well, I would agree with that. It seemed to me that there were several reasons for regionalism. In the first place, each country is almost too small to do much unless they do it in concert.

There is a historical justification for regionalism there. They have demonstrated, I hope, through the peace proposals that they can put pressure on one another in a way that we cannot and that probably cannot be done in any other way.

I also would think that no one suggests immediately that there could be even a common market let along a common currency. But that down the road we would do things that would help them develop their own regional capacity.

So, I suppose I might be a little bit worried about regionalism in Europe right now. But a regionalism there, that is cooperation among those countries would certainly put them in a better position to deal with outside markets.

I do not disagree that outside markets are far more important to them than a common market internally, but I would not that the two are not mutually exclusive. So I would not take issue with anything you say except in the time frame that ultimately we ought to be helping them.

Mr. **Woods**. I think the important thing is that the regionalism that they develop is theirs—that it is the pattern that they want, and that we do not try to encourage patterns which may be different than the patterns which they themselves wish to develop.

Senator **Sanford**. Yes. I think maybe that is the key to our dealing with that region, that their development and their problems are theirs, and that we try to help but not dictate.

In the Marshall Plan we went at Europe that way. It was their plan, and we tried to help—or at least they think, and I believe it is justified, that this is their plan. They certainly dominated the formulation. So, in supporting it, we are not really telling them how to go. We are simply saying we will help you go. So, I do not think we are forcing regionalism on them.

Mr. **Woods**. The second problem, if I may say, Senator, and this may be more subtle in the report, is this: As I read the report, the poor in those countries were looked at more as a group of people who were the objects of development.

I think we are finding, as we are becoming more sophisticated about development, that the poor must increasingly be participants in the development process. I think that is a very important distinction. I think the participation of the poor in the development of their own futures is an important part of any successful development effort.

As I said, it seemed to be a more subtle, underlying aspect of the report, but one which we have had some heartburn over.

Senator SANFORD. We have suffered from that same kind of concept in this country in trying to have what we call poverty programs. We have been far too paternalistic. I think, though, this report maybe would mislead someone, in that there are several phases. The first phase was to take care of some of the immediate needs, which are the needs of people bordering on starvation. And I would think that probably they do not think in terms of dealing the poor out of solving their own problems, certainly as we go along.

Let me raise one other question. I also asked this question of Secretary Baker when he was here. It is obvious that we are not particularly organized for coordination with other donor countries. And here, because of the interest in Central America, a great many European countries, Scandinavian countries, Japan even, are involved. How do we go about working with other countries in a region that is of primary concern to us?

Mr. WOODS. The donor coordination problem is not unique to Central America, but are the biggest bilateral donor in that region of the world. For our own historical and geographic reasons, that is not inappropriate.

Still, it seems to me that it is important to have the coordination, encouragement and participation of other donors in the region. We have been able to do that reasonably well with the World Bank, for example, which is a very large donor. Our coordination with the Japanese, who are beginning to participate more actively in the Central American region, is quite active at this point. It is greater coordination with the European donors that really needs to be addressed.

Senator SANFORD. I thank you. My time has run out, but I look forward to working with you on reforms, changes and improvements in AID, and I certainly think you have pointed the way very wisely. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Sanford.

I would add that the record will stay open, some Senators will have further questions, and we trust you will answer them in writing.

A rollcall vote is about to start, indeed, it is starting. For that reason I think that we ought to recess the committee until approximately 12 noon. And I will come back as soon as I can.

We apologize for the inconvenience to Mr. Bartholomew and to General Brown.

[A brief recess was taken.]

The CHAIRMAN. The Committee on Foreign Relations will come to order.

I apologize to the witnesses and to our guests here today for the inconvenience caused by these roll call votes, which turn up sometimes in the mornings as well as the afternoon and the evenings.

Gentlemen, how would you like to proceed?
Mr. Bartholomew.

STATEMENT OF REGINALD BARTHOLOMEW, UNDER SECRETARY OF STATE FOR COORDINATING SECURITY ASSISTANCE PROGRAMS

Mr. **Bartholomew**. Mr. Chairman, in any way you wish. We have both submitted prepared statements. I have some introductory remarks, but I would be quite happy to forego them in the interest of time if that would be your desire, sir.

The **Chairman**. Absolutely then. Your formal statements will be inserted into the record as if read.

I have a couple of questions and I would also add that the record will stay open so that my colleagues who are unable to be here at this moment will be able to submit their questions as well.

[The prepared statements of Mr. Bartholomew and Gen. Brown follow:]

STATEMENT OF REGINALD BARTHOLOMEW

It is a pleasure for me to appear before you to discuss the Administration's proposed security assistance budget for Fiscal Year 1990. I look forward to working with you in the coming months and years on security assistance legislation, as well as on the broader policy issues affecting our national security interests.

As Secretary Baker has noted, we live in a time of extraordinary dynamism and progress in international relations. While the Soviet Union undergoes a series of transformations unique in our modern relations with that super-power, simultaneously democracy seems to be taking root and flourishing in many countries where its future had seemed doubtful in the recent past. In addition, many regional conflicts which had seemed all but impossible to resolve just a few years ago are now moving toward resolution, influenced by creative and persistent American diplomatic action.

At a moment when so many positive developments are occurring, peoples and governments throughout the world naturally hope that present trends will continue. It is a time when cautious optimism has begun to take root in many parts of the globe. The United States' response to these changes is under discussion in many areas. Today I would like to comment on the role of security assistance in responding to this rapidly evolving situation.

The trends we see in world affairs are no accident. They have been significantly shaped by the efforts which the United

States has made over four decades to build and sustain alliances and cooperative relations with friendly nations around the globe. If we are now to sustain the current positive trends, the United States must continue these efforts. Cooperative relations with strong, self-reliant friends and allies will provide the necessary strategic underpinning for our security in the future.

If this proposition is correct, then security assistance becomes even more important than in the past, serving as a vital tool to support stability, maintain cooperative relationships, enhance access and influence, and oppose threats to U.S. interests. We face the onset of an era in which threats will come from a greater diversity of sources, whether through regional conflicts, international terrorism or the corrupting force of the global traffic in drugs. We will need resources to confront these and other challenges to our national interests.

As the members of this committee are aware, the size and thrust of our security assistance program has altered significantly over time, in response to the changing nature of the dangers facing the United States in the global arena.

--Immediately after World War II, and through the 1950s, U.S. security aid in its many forms was primarily devoted to assisting our close allies to rebuild economies and defenses, in the context of a sharply-delineated East-West confrontation. The success of these efforts is history. The United States helped bring into being a self-sustaining structure for peace in Western Europe and East Asia. It was one of the most fruitful investments this nation has ever made, and it continues to yield dividends.

--Subsequently, the emphasis of our security assistance programs shifted to the support of friends and allies in the developing countries. In the 1960s and 1970s, security assistance was largely devoted to problems of regional stability, the building of national forces, and strengthening of the economic base of friendly countries.

--In the latter part of the 1970s, particularly with the Camp David accords, the weight of our programs shifted again, reflecting our commitment to the goal of Middle East peace. This effort in no way supplanted our commitment to supporting friends and allies in other important regions, but it had an undeniable impact on relative budgetary emphasis.

In this context, let me address the general question of U.S. base rights and access relationships with friendly nations, in southern Europe, the Horn of Africa, East Asia and elsewhere. The present structure of U.S. overseas installations and access agreements is vital to our foreign policy and national security interests. While some changes in basing patterns would certainly be possible in future years, these facilities continue for the most part to serve very important U.S. needs, for which ready alternatives are not presently available.

Furthermore, the bases and other facilities to which we currently have access form part of larger cooperative relationships in our mutual security interests. There are a number of distinct elements to such relationships. The strength and economic well-being of foreign friends and allies benefits us as well as them. Each nation furnishes what it can, whether in the form of bases, military forces or other elements of the security equation. Our own contributions to the structure of deterrence and defense also take many forms, such as troops, monies or physical facilities; each of these also provides mutual benefits to both parties. What we are saying is that it is in the intrinsic interest of the United States to have, for example, a strong Portugal, Greece, Turkey or the Philippines, all fellow democracies and members of the community of free nations. To this larger end, we provide security assistance resources to these and other countries.

Real needs are being met by these programs. And when that need ends, funding ceases, as has occurred in the 1980s with Spain and Korea. In each case, of course, our mutual security interests persist, as does a broad and ever-expanding nexus of relationships, based upon the concept of a mature partnership. A sustainable, cooperative relationship, whether or not it involves the element of financial transfers, is one from which both partners benefit, yet also one in which each is sensitive to the needs and interests of the other.

My point, in citing these specific examples, has been that our security interests with a number of regional partners will continue to be very important for the forseeable future. And, in the broadest sense, our strategic posture equates with the places to which security assistance funding is directed. Our overall objective, as I noted earlier, is to build viable cooperative relations with strong, self-reliant countries, for valid strategic reasons.

As you may know, the Administration recently submitted its package of legislative initiatives to the Congress. The purpose of this legislation, in large measure, is to seek greater flexibility for the Executive Branch, in the service of our foreign policy and national security interests. At a time of severe resource constraints, our proposals also attempt to stretch scarce assistance funds. I wish to cite briefly two of our substantive proposals:

--A "Fair Pricing" plan, building on last year's legislation benefiting Israel and Egypt, which would bolster U.S. competitiveness in the defense export market, while relieving all FMS customers of charges for various costs incurred by DoD; and

--An extension of authority for the NATO Southern Region Amendment, which has proven to be a valuable tool for aid to three key NATO allies: Portugal, Greece and Turkey.

As you are well aware, Mr. Chairman, the military assistance and economic support elements of our security assistance programs are used to further a number of mutually reinforcing goals. These include:

--Enhancing the ability of U.S. security partners to deter and defend against aggression and instability;

--Maintaining the cohesion and strength of our alliances;

--Developing sound military-to-military relations that support our diplomatic strategy and enhance U.S. influence and prestige;

--Promoting regional stability;

--Contributing to our access to military bases and facilities abroad, thereby maintaining the strategic mobility of U.S. forces;

--Strengthening the economies of key countries that are attempting to adjust to heavy debt, depressed commodity export prices and other startling changes in the global economic environment; and

--Providing support for emerging democracies, while defending existing democratic institutions and values in other countries.

Security assistance underwrites U.S. commitments and supports important U.S. interests in many nations, responding to an ever-changing world environment. Helping foreign countries to defend themselves, and to counter domestic threats from terrorists, guerrillas and narcotics traffickers, also contributes importantly to our own security. It is more effective -- and less costly in the long term -- than using

U.S. military personnel for the same purposes. To equal the military effect of friends and allies who are "on the scene", we would have to spend much more on U.S. military personnel, mobility and logistics.

At a time of strained budgets, security assistance becomes even more important. In the future, the United States will rely more on friends and allies around the world to share the common defense burden. Security assistance will remain a major tool for encouraging and enabling them to do so. But security assistance is not a philanthropic effort; it has beneficial domestic impacts. Jobs for Americans and support of exports which benefit the U.S. economy are direct results. The program also makes possible economies of scale in procurement for the U.S. Armed Forces (such as longer production runs) which convey both military and economic benefits. Above all, security assistance is a wise investment in our overall national security and well-being.

Despite its importance, funding for the U.S. security assistance program has been cut repeatedly, beginning in the mid-1980s. Since FY 1985, the program has been reduced by a third, from approximately $12 billion to $8 billion in FY 1989. Along with this reduction in funding has come an increasing tendency for Congress to earmark funds for particular countries. In Fiscal Year 1989, 98 percent of ESF and 94 percent of military aid were earmarked. This continued a trend of increased earmarking underway since the mid-1980s, when about 50 percent of security assistance funds were earmarked. The effect of earmarking has been to reduce dramatically the funding available for allocation by the Administration to non-earmarked countries, and therefore to limit our flexibility.

Declining funding for security assistance programs, together with Congressional earmarking, has forced us to terminate or seriously underfund many unprotected programs. The results have been felt most acutely in Africa and Latin America. Overall, the Administration's ability to use scarce resources to meet foreign policy priorities has been greatly reduced. In response to pressures to reduce the budget, the Administration in recent years has presented smaller, more austere security assistance budgets, and worked with foreign nations to plan activities more carefully while seeking from Congress greater flexibility in order to increase program impact. Congress has responded by improving the financial and repayment terms of security assistance programs. ESF, which previously included loans, is now an all-grant program, while FMS is provided either at concessional rates of interest or as grants. This helps. But earmarking and other restrictions remain serious impediments to the design and implementation of policies and programs to serve our vital interests.

Last month, the President and the Joint Leadership of the Congress reached bipartisan agreement on levels of spending for the Government as a whole for FY 1990. Included in that agreement is a provision which both sets and protects a level of spending for International Affairs -- Budget Function 150 -- at $19.0 billion in Budget Authority and $17.0 billion in associated outlays. As these agreed levels cannot accommodate all Function 150 priorities justified to the Congress by various agencies for foreign affairs programs, the Administration is now reviewing and refining its request to assure that our most pressing foreign policy and national security needs are met. I cannot tell you today what changes we will be proposing to the Congress. However, the prospect that we may not be able fully to meet all requirements for security assistance justified to you today underlines the importance of your giving the President maximum flexibility to design and implement foreign assistance programs, without excessive earmarks or other restrictions.

The Administration's FY 1990 budget request for the security assistance program is the product of careful analysis. It represents an effort to define clear priorities in the face of limited funding. We are focussing on a few areas of priority policy concern. At the same time, our request maintains the overall balance in foreign assistance between military and economic aid programs, with approximately 65 percent for economic and 35 percent for military aid.

Our request would increase ESF by less than 3 percent and military assistance by 7 percent over FY 89 allocation levels. At $5.1 billion ($5 billion in FMS financing, $40.4 million for MAP General Costs and $54.5 million for IMET), our FY 90 military assistance budget request represents only a modest increase over last year's $4.9 billion request, of which Congress appropriated $4.7 billion. In addition, we seek a small increase for the valuable IMET program.

The ESF program fared better last year, suffering a cut of only $22.5 million. This year's budget proposes a very modest increase in ESF, to $3.3 billion, from last year's $3.2 billion request. At less than 3 percent, this is not even enough to keep up with inflation.

As you are aware, ESF is a particularly valuable resource, as it enables the U.S. to address directly economic policy constraints to development in many countries. Depending on the needs of individual recipient countries, it can be provided as project assistance or in macroeconomic form, i.e., cash transfers or commodity import financing. Country allocations of ESF respond to U.S. geopolitical and foreign policy interests. AID is responsible, under the direction of the Secretary of State, for design, implementation and accountability of ESF programs and projects.

As in prior years, major recipients of ESF will continue to be Israel, Egypt, Pakistan, the Philippines and other base rights countries (Turkey, Portugal), and Central America. Modest additional resources are requested for the Dominican Republic, Belize, the islands of the Eastern Caribbean, and other countries.

Our proposed increase for military sales financing -- a total of $328 million over FY 89 actual appropriations -- would fund programs we have had to cut back severely over the last several years. Examples include:

--$75 million more for the Philippines, to enhance the Philippine counter-insurgency effort and to accommodate our best efforts commitment for military sales financing under the base rights extension agreement;

--$50 million more for Turkey, where resources have been insufficient for needed armed forces modernization in the common defense;

--$38 million more for Jordan, a key country with major needs, which received only $10 million in FY 89;

--$25 million more for Portugal, which affords us critical base rights, to support needed NATO-related modernization;

--$23 million more for Thailand, the only U.S. treaty ally on the Southeast Asian mainland, a country which is turning to other military suppliers for lack of adequate U.S. financing;

--$21 million more to fight the drug war in Latin America and the Caribbean;

--$20 million more for Honduras, where needed ground forces improvements have been deferred; and

--$12 million more for El Salvador, to bring that country back to the level needed to sustain its military effort.

In the rest of Latin America, we seek an additional $10 million, largely to continue our support for emerging democracies there. The request also includes an increase of $48 million for African countries, where our emphasis is on promoting professionalism among that region's militaries and developing military-to-military liaison channels.

The FY 1990 security assistance request seeks authority to provide all FMS financing on a grant basis, to further increase the quality of U.S. assistance and reduce the debt burden of military aid recipients. A number of key U.S. friends and allies received assistance in the form of high-interest rate loans in the late 1970s and early 1980s. Repayment of these loans has imposed a heavy and growing burden on these countries. The Administration, with the support of Congress, has moved in recent years to cease adding to this burden by providing most FMS financing in the form of grants. Only those countries which previously received FMS credits will be permitted to use FMS financing for commercial purchases in FY 1990.

In conclusion, I wish to emphasize a point which I made at the beginning of my testimony. U.S. security assistance continues to play a vital role within the overall context of U.S. foreign and national security policy. Despite the positive international trends over the past year, dangers and uncertainties confront a number of countries of importance to us. Key U.S. friends and allies throughout the world continue to rely on us to provide essential assistance to preserve their freedom. The United States must continue to be seen as a reliable security partner to these nations, if it is to retain their trust and cooperation.

A continuation of the trend toward sharply lower and more politically-constrained aid programs could threaten U.S. access and influence in many key regions over the coming years. Vital U.S. interests could be compromised and our ability to project force around the world dangerously diminished. By contrast, the resources needed to fund these programs adequately are modest. A few hundred million dollars can make the difference between an efficient and effective foreign policy and one which must struggle to advance U.S. interests. It is up to us to supplement the efforts of key partners and allies, as they seek to defend themselves against overt aggression, low intensity conflicts, the ever-growing threats from narcotics trafficking and terrorism and domestic instability resulting from economic stagnation.

We need your help to obtain more consistent and flexible assistance funding, so that the security of the United States can continue to be ensured against the multiple threats which face us now and surely will face us in the years ahead.

STATEMENT OF GEN. CHARLES W. BROWN

Introduction

Mr. Chairman, it is a pleasure to appear before your committee today for my first time to testify on military assistance. I look forward to working with you this year to enact an authorization bill that will substantially enhance our military assistance effort.

Objectives

Military assistance is an integral part of the overall U.S. national security posture. As you know, it is intended primarily to further U.S. national security objectives.

Military assistance programs, including cash financed foreign military sales, help friends and allies to deter or manage aggression against common interests through their own forces. Our programs have been highly successful in many instances.

Military assistance also enhances coalition defense by helping certain allies shoulder a greater share of the common defense burden, as with Turkey and Portugal, and by supporting access to key foreign military facilities as, for example, in the Philippines and along the Horn of Africa.

Military assistance further promotes stability by forging close ties with key countries and contributing to stable regional balances of power. For example, our programs with Israel, Egypt, and Jordan are highly important to the preservation of peace in that volatile area of the world.

Finally, military assistance, particularly through the IMET program, builds useful military-to-military relations with a wide variety of countries across the globe. These relationships contribute to the development of professional military organizations; respect for democratic processes and human rights; and provide useful access to influential military and political leaders.

Our military assistance programs exist to serve the national security and foreign policy objectives of this country, and are so guided. These programs also confer substantial economic benefits upon the U.S. Almost all of our assistance monies are spent here at home. About two-thirds of our foreign military sales, however, are cash financed by the purchasing countries themselves. Defense sales make a significant contribution to U.S. economic activity and international trade. Military assistance and sales create or preserve hundreds of thousands of American jobs and generate significant amounts of revenue for the U.S. government. Defense is one of the relatively few areas where the U.S. has consistently enjoyed an export advantage, although this advantage has eroded over the last several years. Sales also contribute to the preservation of the U.S. defense industrial base, and enable the Department of Defense to realize economies of scale savings in procurement for our own forces.

Challenges

Military assistance faces challenges from various quarters. [Graphic 1] As this graphic shows, assistance funding continues to decline, while the percentage of the budget earmarked for a few favored programs increases. Funding for military sales financing declined by over 26 percent since FY 1984, while the percentage of funding earmarked has increased from 49 percent to almost 94 percent. Consequently, funding available to non-earmarked countries has declined by over 90 percent over the same period. As a result, we have had to zero-out funding to numerous countries and drastically reduce funding for the remaining non-earmarked programs. Funding for the International Military Education and Training Program has also been sharply reduced.

Unfortunately, our friends and allies' assistance needs in most cases have not declined. Indeed, in some cases, the needs have increased. Even as peace and stability are gaining in some parts of the world, violence and instability continue or are on the rise in others. The U.S. also faces difficulties in some countries with maintaining access to foreign military facilities that are highly important to our regional defense strategies.

U.S. defense sales to friends and allies around the world, and, hence, the benefits we derive from them, are hindered by domestic constraints and increased competition from foreign suppliers. [Graphic 2] As this graphic shows, U.S. sales, and particularly sales through the government-to-government FMS system, declined substantially between FY 1982 and FY 1987. In FY 1986-87, FMS sales reached a low of $7 billion. This decline in FMS sales was concentrated in major system sales (shown as the hashed area), typically just a handful of cases even in a high sales year. Routine sales of spares, support items, and ordnance (shown as the solid area), on the other hand, stayed consistently around the $6 billion level. The consistency of our routine sales reflects the continuing support requirements of major systems we sold in earlier years; a long-term downward trend in major system sales, however, can be expected eventually to also produce a decline in routine sales.

Sales did rebound in FY 1988, with FMS sales agreements reaching $12.5 billion. The increase in FMS sales represents just a handful of major system cases, such as F-16s for Israel and Egypt. We do not project this improvement in FMS sales to last, but rather see FMS agreements falling back below $10 billion over the next couple of years. Future commercial sales are harder for us to predict, but there is some evidence that more sales are going the direct commercial route rather than through the government-to-government FMS system.

The nature of defense sales and cooperation is changing, too. Countries increasingly want to produce and, in some cases, develop their own defense systems, often with U.S. assistance. Co-production is helping some of our assistance countries to become more self-sufficient in the provision of their defense needs. Joint development promises to rationalize defense procurement practices among our developed allies by reducing costly duplication of effort and promoting standardization within alliances.

Finally, there is the continuing challenge to make the FMS system more responsive and accountable. I call it streamlining, and it includes more responsive development, implementation and execution of programs; better financial accounting systems, and more effective utilization of management information. Streamlining is one of my highest priorities, and I know effective management of resources is an issue of importance to this committee as well as to our friends and allies. We are working hard on the matter, and are making progress in this long-term effort.

The challenges I have just outlined have important implications for U.S. national security as well as for this country's political and economic interests around the world. We must demonstrate the will and innovation to respond successfully. The Administration's FY90 military assistance budget and legislative proposals are an important part of a successful response.

FY 1990 Budget

The Administration requested $5.1219 billion for military assistance in FY 1990, which breaks down as follows: $5.027 billion for Foreign Military Sales Financing (FMSF); $40.432 million for the general administrative costs of the Military Assistance Program (MAP); and $54.5 million for International Military Education and Training (IMET). Subsequently, the Administration and Congressional leadership reached an agreement on the FY 1990 federal budget which differs significantly from the President's request, including the request for the International Affairs budget function. Since we are not sure at this time how that agreement will affect military assistance programs in FY 1990, I will continue to discuss these programs in terms of the budget justified to Congress in our *Congresssional Presentation on Security Assistance Programs, Fiscal Year 1990.* That budget proposal is an accurate description of our military assistance requirements in a constrained budget environment.

As in last year's request, the Administration has proposed that all military assistance be provided on a grant basis. This is responsive to the economic situations of the intended recipient countries. This is also in keeping with Congress' reluctance to increase the debt burden of developing countries, as reflected in the increasing grant component of military sales financing appropriations over the last several years (91% in FY 1989).

The Administration departed from previous practice this year by requesting that all military sales financing for countries be provided through the Foreign Military Sales Financing program and none through the Military Assistance Program. As FMSF has increasingly made a transition from a loan to a grant program, the distinctions between it and all-grant MAP have receded. Having requested an all-grant financing program for FY 1990, the Administration took this opportunity to simplify the presentation and budgeting of the financing effort by consolidating it into one program. This Committee's Task Force on Foreign Aid has endorsed such consolidation. Funding has been requested for MAP only to cover administrative costs of military assistance.

The Administration has also requested that the availability of FMSF for financing direct commercial purchases continue to be available only to countries with sufficiently developed acquisition systems and infrastructure to ensure that the funds are utilized in a cost-effective manner. As such, it has proposed that the availability of FY 1990 FMSF funds for financing of direct commercial purchases be restricted to those countries for whom the Administration requested assistance under the Foreign Military Sales Financing program for FY 1989.

The military assistance request represents a $142.4 million or 2.9 percent increase over the FY 1989 request and a $334.8 million or 7.0 percent increase over the FY 1989 appropriation. I realize that we are in a difficult budgetary period, but I believe that the committee deserves to know what we judge is needed in our area of expertise: the programmatic military requirements of important friends and allies. [Graphic 3] Furthermore, as can be seen on this graphic, the overall foreign assistance request reflects the traditional 35 percent - 65 percent balance between military and economic assistance. [Graphic 4] And, as this graphic shows, if one excludes the substantial portion of the worldwide foreign assistance budget, military and economic, allocated to Israel and Egypt, the military portion of foreign assistance for the rest of the world is much more modest -- less than 14 percent.

The increases over the FY 1989 allocation are concentrated in a few high priority countries. The largest increase is for the Philippines. In support of the democratic government of Mrs. Aquino and our continued access to bases in the Philippines, the Administration agreed to a best efforts pledge of $400 million in military assistance, as well as larger amounts of economic assistance, during the next two years. The FY 1990 military assistance share of this best efforts pledge is $200M, representing a $75M increase over the FY 1989 level. This assistance will be used to purchase support items, maintenance, training, and new equipment needed to combat the Philippines' insurgency. It is important to the success of the Aquino government and democracy generally in the Philippines, as well as to our continued access to Philippines military facilities beyond 1991, that our best efforts pledge be supported.

The next largest increase -- of $50 million -- is for Turkey. Strategically-situated and dependable, Turkey is a high priority assistance country. We continue to support, along with other NATO allies such as Germany and the Netherlands, the modernization of Turkey's largely outdated equipment, though at a far slower pace than needed. The Turkish armed forces estimate that a timely modernization program would require $2 billion of military assistance a year. Of course, as the Turks fully realize, that level of assistance is more than the U.S. or our allies are in a position to provide. It is very important, however, that we increase our military assistance to this very important ally. Turkey's proposed FY90 financing would be used primarily to continue the on-going M48 tank upgrade and F-16 production programs and to support older, existing U.S.-origin equipment.

We should not allow assistance for Turkey and other countries to suffer by tying Turkey's assistance in any way to the level of assistance we provide to another important NATO ally, Greece. The 7/10 ratio in particular, although it is traditional, has no programmatic or military justification.

We have also requested a $25 million increase for Portugal for a total FY90 request of $125 million in grant financing. The U.S. and Portuguese governments recently concluded a highly successful review of the Portuguese military and economic assistance requirements. The understandings reached during this review will significantly enhance Portuguese defense capabilities in support of NATO and secure continued cordial and productive security cooperation between our two countries for the foreseeable future.

As part of the understandings reached with the Portuguese, the U.S. undertook to do its best to provide Portugal with some of the defense items it needs to carry out its NATO defense responsibilities, including defense of the critical Azores facilities. We plan to fill these requirements as much as possible through the transfer of excess U.S. equipment under the authority of the Southern Region Amendment (SRA). To this end, we will request Congress to indefinitely extend the SRA authority, which is scheduled to expire at the end of this year. SRA authority, however, is not sufficient -- there is not enough nor the proper kind of excess equipment available to meet all of Portugal's priority requirements. Portugal will require in excess of $100M of military assistance financing for each of the next five years. The proposed FY90 financing for Portugal will be used to continue the on-going Portuguese frigate program, support existing equipment, and procure interceptor aircraft, air defense and other needed items.

For Pakistan, we again have requested $240 million in grant financing, which represents a $10 million increase over the FY89 actual level. Our assistance program with Pakistan has been an important factor in Pakistan's ability to oppose the Soviet presence in Afghanistan. The turbulence on Pakistan's border did not end with the Soviet withdrawal, however. Pakistan still needs our help. A continued vigorous U.S. assistance program is also intended as a tangible demonstration of support to the Bhutto government as it continues to consolidate democratic processes and institutions. I therefore urge the Congress to support continued assistance for Pakistan at the request levels.

In El Salvador, we have sought an increase of $12 million over the FY 1989 allocation. As the committee is well aware, our commitment to help El Salvador to build a durable democracy while opposing the FMLN's efforts to impose a communist regime by the force of arms remains firm. We support efforts to reach a peaceful resolution of the insurgency in El Salvador, and hope that the most recent efforts bear fruit. Nevertheless, the security situation remains serious, and the insurgent forces have intensified their attacks on civilian, as well as military, targets.

Because of overall funding reductions and increased earmarks, we have been unable to cover fully the sustainment requirements of the Salvadoran armed forces during the past two years. Consequently, reserve stocks have been depleted and needed maintenance put off. El Salvador can not continue to go underfunded without risk to its counterinsurgency effort. The $97 million we seek for El Salvador in FY 1990 is the amount that the U.S. Southern Command determined after a comprehensive survey to be El Salvador's minimum sustainment requirements at the current level of operations. The Salvadorans optimally require $125 million.

For Honduras we again have requested $60 million in grant military financing, an increase of $20 million over the FY89 actual level. Increased assistance is needed to continue the modernization of Honduran forces. U.S. assistance to Honduras clearly demonstrates the strong commitment of the United States to the defense of democratic development and our own security interests throughout Central America. Honduras' FY90 assistance will fund training and maintenance for previously furnished systems, payment for the replacement of obsolescent Super Mysteres with F-5's, and improvement of naval coastal patrol through acquisition of amphibious aircraft and improved patrol boats.

For Jordan, we have requested an increase of $38 million over its FY 1989 allocation for a total of $48 million in grant financing, the same amount as requested in FY 1989. Jordan is a long-time friend with a pivotal role to play in Arab-Israeli relations. For many years, the U.S. has been an important source of assistance to Jordan and has enjoyed a close and cooperative relationship with the Jordanians. Over the last several years, however, our assistance for Jordan has been seriously eroded under the pressure of declining worldwide assistance levels and sharply increased earmarking. From FY84 to FY88, U.S. military financing for Jordan declined by about $89 million or 77 percent. This year, assistance for Jordan had to be slashed another 62 percent. The reduction of military assistance has reduced substantially Jordan's ability to sustain already delivered U.S. systems.

We need to restore Jordan to earlier, higher levels of assistance. The financing requested for Jordan in FY 1990 would be used to support and upgrade previously-furnished U.S. equipment and to finance limited quantities of urgently needed supplies.

For Thailand in FY90, we have requested $45 million in grant financing, the same level as the President's FY89 request, or $23 million above the FY89 actual level. Thailand, like Jordan, is a long-time friend and ally, occupying a key position in an important and volatile part of the world. Like Jordan, Thailand bore the brunt of the funding reductions in FY 1989 necessitated by worldwide funding reductions and increased earmarking. Military financing for Thailand, already down 57 percent from FY 1985, dropped a further 49 percent last year. It is in our interest to preserve our close security relationship and help meet the substantial security requirements of our best friend in an area of continuing strategic and increasing economic concern to us. The FY 90 request would restore

Thailand to its FY 1988 assistance level in order to provide for support and modernization of Thai forces.

We have requested an additional $21 million above FY89 actual levels for countries in South America and the Caribbean with serious narcotics and, in some cases, related insurgency problems. The biggest increase in this group is for Colombia, where the activities of drug barons and insurgent groups, sometimes working together, threaten the very survival of the legal system and democratic government. The next largest increase is sought for Peru, which is in a situation analogous to Colombia's. Increases are also sought for Bolivia and the states of the Eastern Caribbean.

The narcotics problem is a complicated and, it often seems, an intractable one. There is an important role for international programs designed to get at the supply end of the problem.

Efforts to date have involved mostly work with local law enforcement people, eradication, and the very occasional and temporary use of U. S. military transportation to assist the law enforcement people. We believe the local military forces are ready to and must take a larger role in these efforts. They are the only forces large enough to do it; they have the infrastructure; they can act as a disciplined and trained force; and it is far better that they take this role rather than U.S. combat forces. We are beginning to see indications that institutional pride can overcome the adverse circumstances which tend to restrain military involvement. But, in the struggle against the traffic in illicit drugs, military establishments need our assistance in funding of materiel, training, and support if they are to expand their role. This is not to say that the military can supplant the local police forces, but they have a role to play.

At the same time, we must keep in mind that narcotics trafficking is not the only security problem faced by these countries. As mentioned above, Colombia and Peru also have serious insurgency problems with roots and objectives independent of the drug barons, although tactical alliances can and do exist between those groups. Insurgency is primarily a military problem, while narcotics has been primarily a police matter. We seek through our military assistance programs to enhance these countries military forces' ability both to combat insurgencies and effectively contribute to the anti-narcotics effort.

For the most part, lesser increases have also been sought to restore other smaller but nevertheless valuable programs, mostly in Latin America and Africa, that were unfunded this year or almost so because of the scarcity of resources.

The International Military Education and Training program is also a very important part of our military assistance request. It has been generally recognized as our most cost-effective foreign assistance program. IMET is a people program that establishes valuable personal relationships and lines of communication with foreign military personnel, many of whom rise to prominent positions within their countries. By studying in the United States, foreign military students learn our ways and are exposed to our values of support for democracy and personal integrity based on pride in military professionalism. They, in turn, help spread these values in their countries by sharing their experiences with military and civilian counterparts. It also provides friends and allies with specialized knowledge and skills that improve their utilization of U.S. equipment and management of forces.

We have asked for a $7.1 million increase for this important program for FY 1990. This would restore IMET to its earlier funding level, and help make up for shortfalls in professional military education and training. There would be broad participation in the increase, with the largest increases going to such important countries as Colombia, Jordan, Morocco, and the Philippines.

With regard to IMET for so-called "high-income" countries, we are sensitive to concerns that countries pay their fair share. We have long had a cost-sharing policy to insist that countries pay their travel and living allowances, if they can. The legislating of this in last year's appropriations bill was recognition of this cost-sharing policy while also continuing to recognize that there are benefits to attracting military students from high income countries into our Professional Military Education system. But the threshold legislated in appropriations had a rather indiscriminate effect.

We believe that the legislation was concerned with the use of IMET for "advanced, industrialized" nations, but the threshold in the appropriations bill covered a number of countries which could hardly be considered to be in this category, such as Gabon or Trinidad-Tobago. Since we want to maximize the amount of IMET which is indeed spent for tuition, we would like the opportunity to apply regulatory procedures which ensure that the industrialized nations do in fact pay their travel and living allowances, but leaves us discretion for countries which are not. For these reasons, we would like your support against the imposition of a per capita GNP threshold in legislation.

The Administration has also requested $325 million in obligation authority in the Appropriations Bill for the Special Defense Acquisition Fund (SDAF). This Fund allows the U.S. to procure defense equipment in anticipation of foreign military sales, thereby substantially reducing lead times on certain high demand and/or particularly long-lead time items. In doing this, SDAF often serves other useful purposes, such as achieving procurement economies for U.S. forces by increasing unit purchases or keeping production lines warm between orders. SDAF is not an assistance program; its equipment is sold at full price. Of course, countries receiving U.S. financing assistance may use those funds to purchase from SDAF, just as they may use them for any other allowable U.S. defense purchases.

SDAF operates on a revolving fund principle, recycling receipts from the sale of SDAF equipment to purchase new equipment. The Fund was capitalized to $1.07 billion earlier this decade, so it requires no new funds nor appropriations to function. However, it can only obligate funds in any year up to the amount authorized by Congress. During the past two years, Congress has authorized new SDAF obligations substantially below the amount available for obligation, despite the fact that higher obligation levels involve no budget authority and have little impact on outlays. Congressional authorization of $325 million in SDAF obligational authority for FY90 would enable SDAF to be more fully utilized to support national security interests.

Mr. Chairman, I believe that I have outlined for the committee some very important reasons why military assistance funding needs to be increased in FY 1990. I recognize that the overall budget situation could be even tighter this year than in years past, and that foreign assistance could be reduced again if that proves to be the case. If actual funding falls substantially short of what has been requested, some very difficult choices will have to be made. These could be choices among best efforts pledges to the Philippines and Portugal, continued support for the democracy and counter-insurgency in Central America, preserving programs with Jordan and Thailand, and the small increases targeted for South America and the Caribbean, to mention a few.

I ask for your support for adequate funding for military assistance in FY 1990. I also ask for your support in reducing earmarks.

Earmarks, particularly in the context of declining funding levels, have greatly complicated our military assistance effort over the past several years. Earmarking a few favored programs while appropriating total funding far below the requested amounts has caused important countries with real military requirements and objectives to be neglected. In many countries, friendly forces engaged in on-going conflicts suffer and previously-furnished U.S. equipment languishes for lack of funds to support it because earmarks allow unused assistance funds to accumulate or far less urgent requirements to be filled in other programs. It only makes sense that, when resources are scarce, more care should be given to ensuring that they are allocated to meet well planned, validated military requirements. The damage borne by our military assistance effort this year would have been far less if the Administration had been given greater flexibility in the allocation of scarce funds.

Legislative Initiatives

The Administration is providing to Congress its package of security assistance legislative initiatives, each of which will improve our security assistance effort. I ask for your support in enacting all of these proposals. Because there are more than a few and they are justified individually in the package being sent to Congress, I would like to limit my comments here to three initiatives that are of particular importance to military assistance.

Fair Pricing is the first initiative. [Graphic 5] It would reduce some of the add-on charges to U.S. defense sales, particularly for those sales that are financed with U.S. grant assistance. As such, it would stretch scarce military assistance resources. We also believe that it would help prevent the loss of U.S. defense sales to other suppliers, and, with it, the loss of U.S. access and influence in important countries throughout the world and the substantial economic benefits that sales generate for the U.S.

Similar legislation last year appeared in the Senate's FY89 foreign operations appropriations bill. That legislation was not enacted in the final Appropriations Act. Instead, cost reductions were enacted for the recent Israeli and Egyptian F-16 purchases. Also enacted was a provision exempting the cost of military salaries from the price of defense services cases wholly financed with grant FMSF funds just as had been done for MAP a few years ago. Hoping to build upon those achievements, we made some helpful changes to the Fair Pricing initiative and have resubmitted it for consideration by this committee and the Senate.

[Graphic 6] In Fair Pricing, we would no longer charge countries using U.S. grant financing for non-recurring research, development, and production costs. These are costs that the Defense Department has already incurred to develop and procure systems for our own forces. We would also no longer charge countries for the depreciation cost of U.S. plant and tooling (asset use) involved in the production of these systems. We estimate that these changes would stretch the buying power of grant financing assistance we provide to friends and allies by 4 percent on average.

Fair Pricing would also terminate military assistance liability for some relatively fixed DoD administrative overhead costs. For example, DoD would not be reimbursed for the salaries of military personnel involved in program administration, nor would we cover unfunded civilian retirement costs. The effect of these changes is to obviate the need to increase the current 3 percent administrative surcharge on the value of all FMS cases.

Because of the decline of major system sales since early in this decade without a corresponding reduction in workload, the current 3 percent administrative surcharge is no longer sufficient to cover the administrative costs for which the military assistance program is legally liable. This is true despite the fact that in 1987 we added a new 3.1 percent administrative surcharge to all logistics cases and reduced the Services' administrative budgets by about $65 million or 16 percent. Unless Fair Pricing is enacted, we will have to increase the administrative surcharge, probably to 5 percent. An increase, especially of that magnitude, would further erode already scarce military assistance resources. Moreover, we expect that such an increase would drive countries away from the FMS system, and probably initiate a vicious cycle of declining sales and increasing surcharges. Consequently, the U.S. will lose the access and influence it achieves through assistance and cash sales, as well as the substantial contribution of sales to our defense industrial base; economies of scale in DoD procurement; trade; and jobs.

Fair Pricing does involve a cost to the Defense Department budget. We estimate this cost to be about $156 million in a typical year, of which $60 million represents reduced reimbursements to the Military Personnel accounts and the remaining $96 million is reduced payments into the Treasury's miscellaneous receipts account that in turn are credited back to the Defense budget as offsetting receipts.

The Defense Department, in agreement with former Secretary of State Shultz and now Secretary Baker, is prepared to absorb these costs. Fair Pricing has been endorsed by current Acting Secretary of Defense Taft and former Secretaries Carlucci and Weinberger during their tenure as a cost-effective reallocation of U.S. defense resources. Fair Pricing is an urgently needed response to the serious problems posed to our security interests by declining assistance funding and sales.

Extension and improvement of the Southern Region Amendment is the second initiative I would like to comment on. The Southern Region Amendment, as originally enacted, authorized the President to provide, on a no-cost basis, excess or programmed to be excess U.S. defense equipment to security assistance countries in NATO's southern tier that were integrated into NATO's military infrastructure. The following year, Congress amended this authority to extend eligibility to Israel and Egypt while restricting the definition of available equipment. Congress also added a provision to appropriations legislation, which it has subsequently renewed, to require that any SRA assistance provided to Greece and Turkey be provided in the same ratio as their military assistance funding.

The original SRA authority was very useful. Substantial amounts of needed equipment were provided to Greece, Portugal, and Turkey. Subsequent modification of the authority has greatly reduced its usefulness, particularly for Greece and Turkey. The extension of the 7:10 ratio to SRA has prevented us from offering any additional equipment to Greece and Turkey in part because of the difficulty of putting together a package of useful items that corresponds to that ratio and other related restrictions. The more restrictive definition of excess equipment has also significantly limited the items we can offer to eligible countries.

SRA provides a valuable means to strengthen coalition defense in NATO at little or no cost to the U.S., particularly in these times of scarce military assistance funding resources. It is also highly supportive of ongoing modernization along NATO's southern tier. We propose that the SRA authority be extended indefinitely. We further propose that the eligibility for SRA assistance be returned to the original intention, whereby only NATO southern tier countries are eligible. I also ask for your assistance in avoiding a continuation of the 7:10 ratio requirements for SRA assistance to Greece and Turkey, so that SRA can resume being a benefit to these countries.

Excess Defense Articles for Foreign Military Forces in National Anti-Narcotics Programs. In the Administration's proposed Authorization Bill, we are asking for authority to transfer excess defense articles free of charge to military forces in Latin America and the Caribbean . This provision would resemble the the SRA, except that its intention would be to make equipment available at the low-tech end of the spectrum, i.e., basic military equipment suitable for use in a low-intensity conflict against drug traffickers. This would be a modest addition to the military forces of those countries that are eligible for assistance but have insufficient resources for their basic requirements.

HFAC Foreign Aid Review

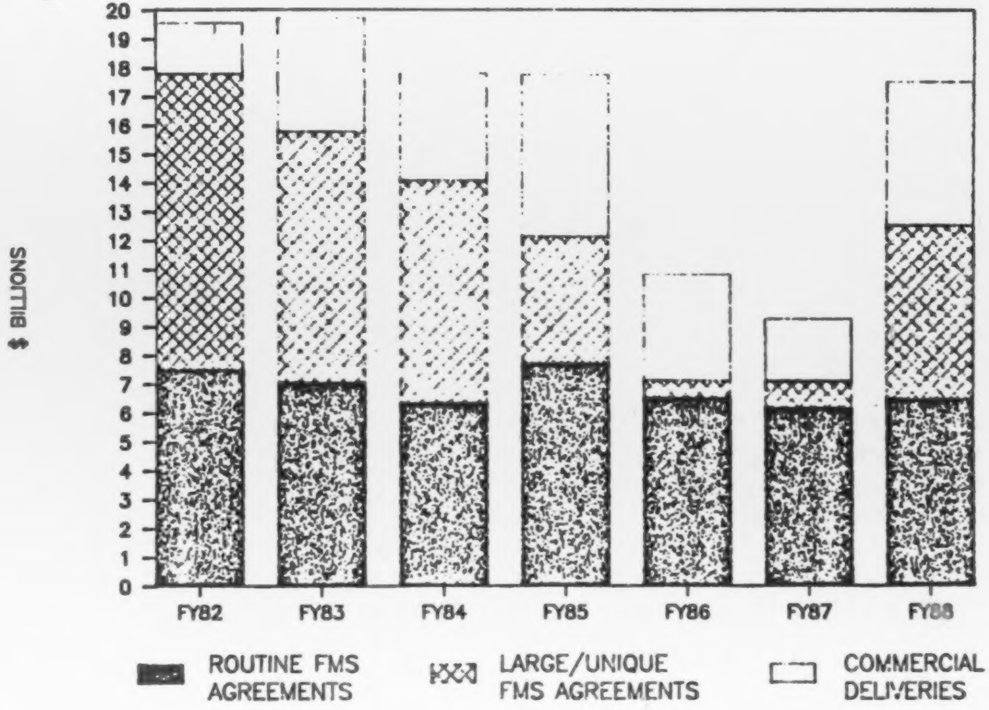
Several months ago, the House Foreign Affairs Committee (HFAC) produced a task force report reviewing the state of U.S. foreign assistance programs and making a number of recommendations on how to improve them. The HFAC is now completing its work on a foreign assistance authorization bill that incorporates much of the ideas and recommendations of the task force report. We and other concerned elements of the Executive Branch have contributed, and continue to contribute, to this effort. While we do not agree with all elements of the task force report or the subsequent HFAC authorization bill, we consider it on the whole to be a very positive effort. I strongly encourage this committee to build upon this effort, and I hope that we can work closely together this year to enact an authorization bill that makes foreign assistance a better instrument of U.S. national security and foreign policy.

Conclusion

Mr. Chairman, I believe that we have a well-justified budget and legislative program this year that will significantly enhance our military assistance effort. I reiterate my request for this committee's help in securing adequate funding for military assistance in FY 1990, avoiding micro-management, and enacting authorization legislation that incorporates the Administration's legislative proposals and the best aspects of the HFAC's authorization effort. I offer you whatever assistance we can provide you in this endeavor. Thank you.

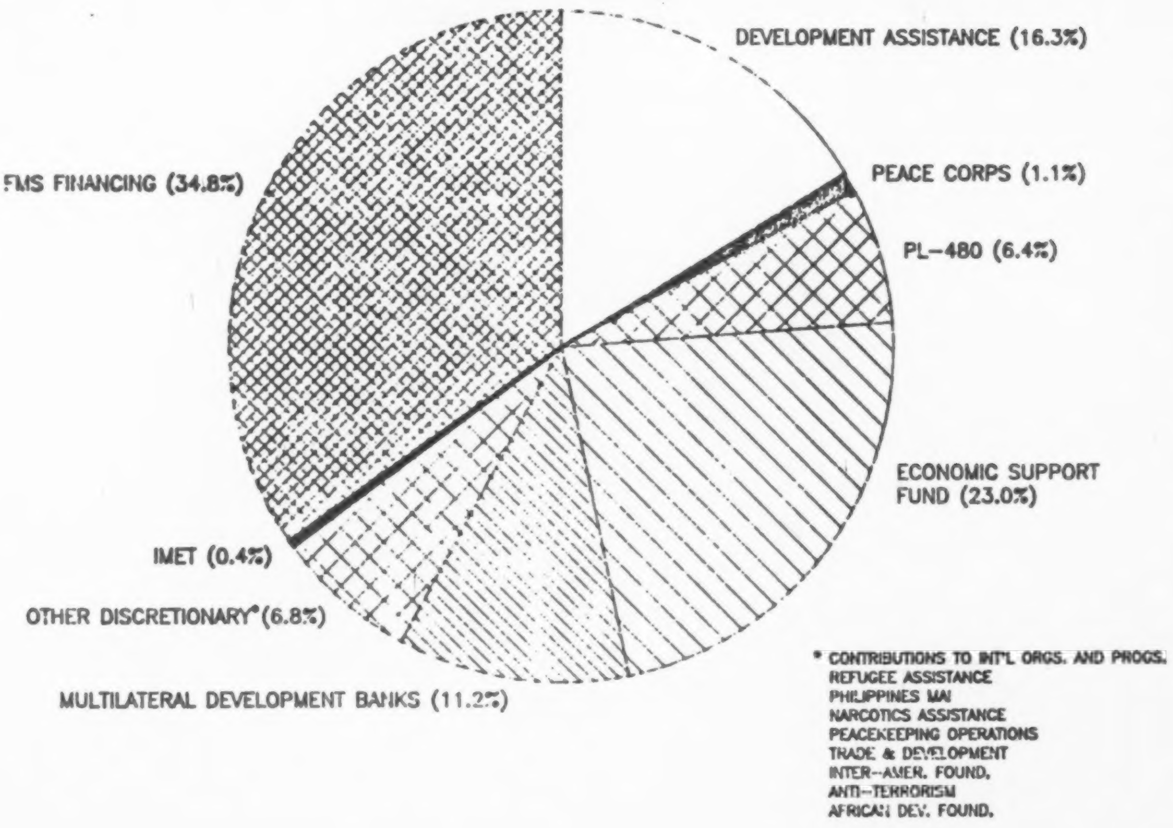
U.S. MILITARY SALES

FY 1982 – FY 1988



FY 1990 FOREIGN ASSISTANCE REQUEST

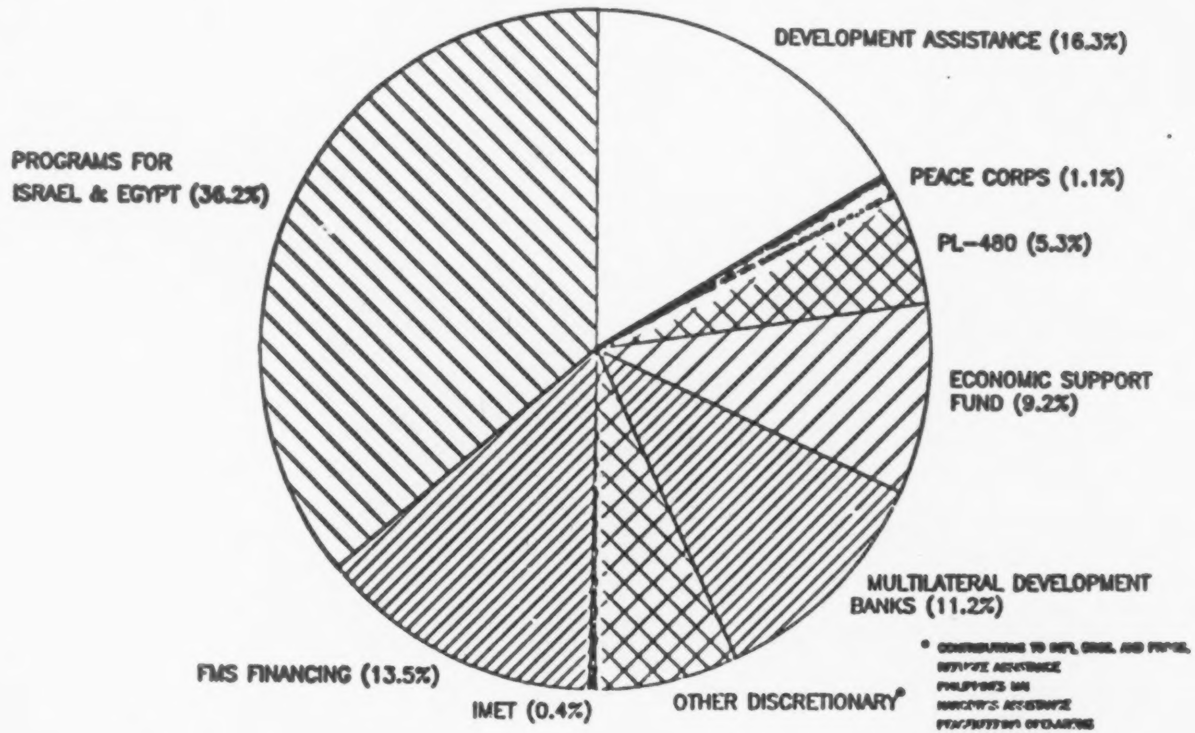
$14.6 BILLION



* CONTRIBUTIONS TO INT'L ORGS. AND PROGS.
REFUGEE ASSISTANCE
PHILIPPINES MAI
NARCOTICS ASSISTANCE
PEACEKEEPING OPERATIONS
TRADE & DEVELOPMENT
INTER–AMER. FOUND.
ANTI–TERRORISM
AFRICAN DEV. FOUND.

FY 1990 FOREIGN ASSISTANCE REQUEST

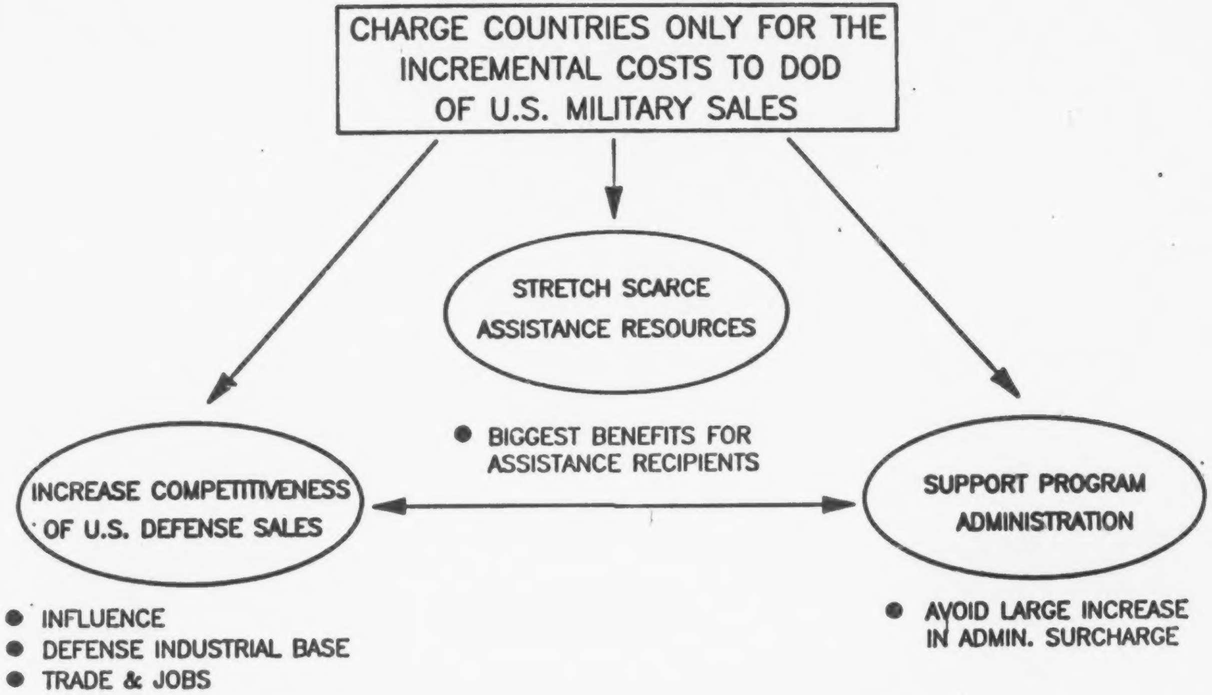
$14.6 BILLION



* CONTRIBUTIONS TO INT'L ORGS. AND PROGS.
REFUGEE ASSISTANCE
PHILIPPINES MAI
NARCOTICS ASSISTANCE
PEACEKEEPING OPERATIONS
TRADE & DEVELOPMENT
INTER-AMER. FOUND.
ANTI-TERRORISM
AFRICAN DEV. FOUND.

#2

FAIR PRICING



CHARGE COUNTRIES ONLY FOR THE INCREMENTAL COSTS TO DOD OF U.S. MILITARY SALES

STRETCH SCARCE ASSISTANCE RESOURCES

- BIGGEST BENEFITS FOR ASSISTANCE RECIPIENTS

INCREASE COMPETITIVENESS OF U.S. DEFENSE SALES

- INFLUENCE
- DEFENSE INDUSTRIAL BASE
- TRADE & JOBS

SUPPORT PROGRAM ADMINISTRATION

- AVOID LARGE INCREASE IN ADMIN. SURCHARGE

LAST TWO SECDEFS ENDORSED FAIR PRICING
AS COST-EFFECTIVE REALLOCATION OF U.S. DEFENSE RESOURCES

FAIR PRICING

WAIVE NON–RECURRING COSTS FOR CASES FINANCED WITH GRANT ASSISTANCE

- SAVINGS OF $25M PER YEAR

ELIMINATE ASSET USE CHARGE FOR ALL

- SAVINGS OF $37M PER YEAR

NO LONGER REIMBURSE MILDEPS FOR MILITARY SALARIES ASSOCIATED WITH PROGRAM ADMINISTRATION

- SAVINGS OF $60M PER YEAR

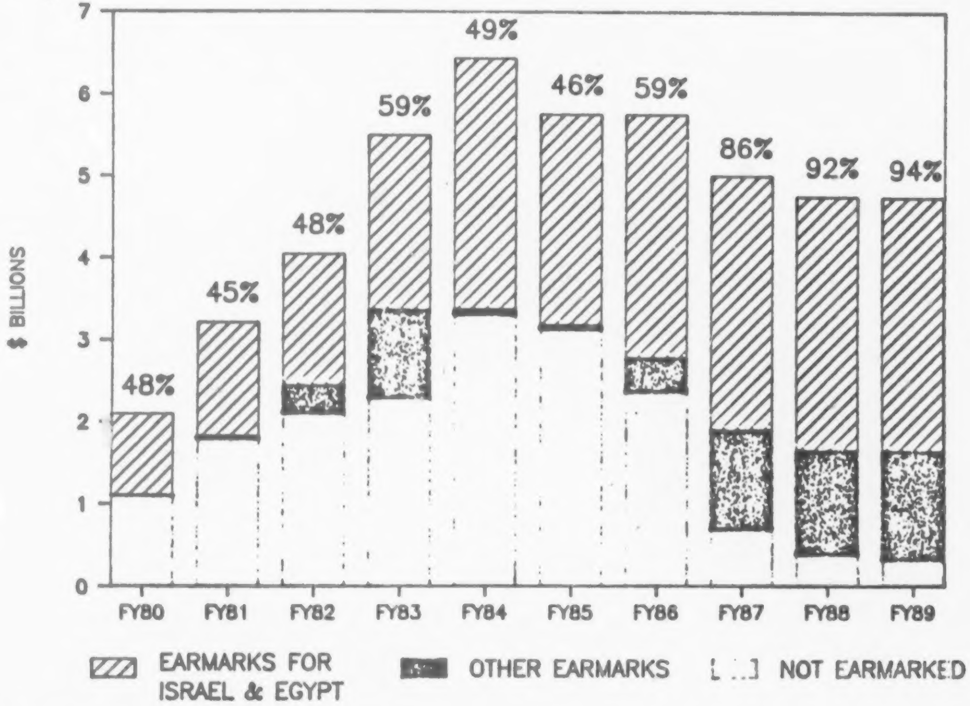
NO LONGER REIMBURSE TREASURY FOR UNFUNDED CIVILIAN RETIREMENT COSTS

- SAVINGS OF $34M PER YEAR

#5

FMSF/MAP EARMARKED BY CONGRESS

FY 1980 – FY 1989



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The CHAIRMAN. I have a couple of specific questions. For example, the administration wants to repeal that part of Section 1 of the Arms Export Control Act, calling upon the President to adhere to a policy of restraint in arms sales and to undertake efforts unilaterally and multilaterally to reduce the arms transfers.

Now, does this mean that the administration rejects the concept of restraint in arms sales or are you foregoing that?

Mr. BARTHOLOMEW. Not at all, Senator. In point of fact, as we consider any program of aid and any program of arms sales, there is a long standing set of criteria which must addressed before the sale that go precisely to the question of the impact of the potential sale or transfer. The questions that must first be addressed include arms control considerations in the area, regional stability, the ability of the state to absorb the articles sold or transferred and the like. These questions are very much in the main line of issues that have normally been addressed before a sale is made.

I think what is involved in the administration's move there is simply to take a position that recognizes the fact more clearly that in certain cases arms sales, arm transfers, under the Security Assistance Program, are not only in our direct security and foreign policy interests, but, indeed, make sense from the standpoint of defense trade and supply relationships, and for balance of payments purposes, sir. But I do not think it connotes in one wit any sense that this administration is not going to continue to be concerned with these dimensions of stability and restraint, which successive administrations have long observed.

The CHAIRMAN. I guess it gets back to the old philosophical question, is it best to leave emerging nations with primitive weapons or make them have more sophisticated weapons, which will then mean their neighbors will have to do it, too.

Mr. BARTHOLOMEW. I understand the proposition, Senator, but I do not know that we have a choice, as you reflect on it. One of the developments that struck me in the last decade is not simply the expansion of supply, sourced from established suppliers in the market—evidence for which we find by looking at what has been happening with the Soviet union, if we look at the figures for France and other allies—but also the expansion of a second line of suppliers in newly industrializing countries, permit me not to name any of them particularly, but, in effect, we have had an expansion in supply from both first and second tier sources, and you do have countries that need these weapons and are going to look for them.

I am not convinced myself of the extent to which we can, by ourselves, certainly affect that.

The CHAIRMAN. Do you think we can reduce the arms transfers in certain parts of the world; for example, in the Middle East?

Mr. BARTHOLOMEW. Well, as I say, Senator, we are always interested in restraint, but at the same time, we look at these transfers, these security assistance programs, as very much tools to try to create the kinds of situations of stability, if you will, and defense in areas that are important to us, and in countries that are important to us. So that we start with the attitude that they can be a positive instrument in the sense of maintaining balances and the like that go the kinds of objectives you are talking about.

Where we can, and where possibilities present themselves, yes, I think we would be interested in trying to work out balances and arrangements. But the area that you put your finger on is a very difficult one, indeed, for reasons that I do not think I have to tell you, Senator.

The CHAIRMAN. I wonder if there is not a special case in Central America where the weapons on both sides will often have been provided by us?

Mr. BARTHOLOMEW. Well, I think that that may be the case, but I do not think that fact is at the root of the problems of Central America, Senator. And I am not sure how much that fact, by itself, has created the problems that are there, in terms of, for example, the current situation we face where Nicaragua is concerned and our interest in seeing Nicaragua democratize its politics, as it were.

The CHAIRMAN. Do you think there will be any efforts made to have conventional arms transfer talks? I believe in the late 1970's the Carter administration attempted to inaugurate or get started on some arms transfer talks, conventional ones. Would the administration oppose any attempt by other nations to revive such talks?

Mr. BARTHOLOMEW. I do not think the administration at this time is contemplating any such talks, Senator.

Again, I underscore, not because of a lack of interest or concern about regional stability or proper restraint, what I would call proper restraint, but basically because I think that the experience that you are referring to already demonstrated the terrific difficulty that is involved in arriving at any such arrangements.

And, if anything, as I reflect over the last 10 years, I think the difficulties have risen, just as I was speaking earlier of the number of real world suppliers out on the market. That, too, as an example of the problems.

So, the short answer is, "No," the administration is not, to my knowledge, at this time contemplating trying to relaunch such an effort.

The CHAIRMAN. Thank you.

Now, moving to another part of the world, to Cambodia. There have been press reports recently that the administration has decided or is about to decide to provide lethal aid to Prince Sihanouk and the Cambodian non-Communist resistance. Can you confirm whether that decision has been made or is the subject still under consideration?

Mr. BARTHOLOMEW. Senator, I cannot help you very much on that. I am unaware of any action on this point at this time.

The CHAIRMAN. Maybe that could be one of the questions or responses which you could submit for the record?

Mr. BARTHOLOMEW. I would be happy to try to get you an answer for the record, Senator.

[The information referred to follows:]

Question. There have been press reports in recent days that the administration has decided, or is about to decide, to provide lethal aid to Prince Sihanouk and the Cambodian non-Communist resistance.

Can you confirm that this decision has been made, or is the subject still under consideration?

Answer. We are continually evaluating and assessing the needs of the non-Communist resistance (NCR). We believe that, in preparation for a settlement in Cambodia, our assistance to the NCR should be increased. We are continuing to consult with the NCR, other friends and allies, and with congressional leaders on the level and types of assistance most appropriate to the needs of the NCR.

The **Chairman**. Then you are not too familiar with the Cambodian situation in general.

For example, it appears that the military aid to Sihanouk's group would have been delivered to the camps along the Cambodian border. And these are the same refugees that have been shelled by the Vietnamese forces from with Cambodian. If we start making an open program of military aid to those forces, it would simply escalate the violence that is going on there.

Mr. **Bartholomew**. I note what you are saying, Mr. Chairman. Let me provide an answer for the record to your original question.

The **Chairman**. OK, good. I have four of these questions all along the same subject.

[The information referred to follows:]

Question. Since the non-Communist resistance elements have been associated with the Khmer Rouge as part of the anti-PRK coalition, what assurances are there that such military aid will in fact be aimed against the Khmer Rouge, rather than at the Vietnamese-backed People's Republic of Kampuchea (PRK)?

How can we prevent some of this military [aid] from actually falling into the hands of the Khmer Rouge?

Answer. The association of the two NCR groups and the KR in opposition to the Vietnamese occupation of Cambodia has resulted in no apparent coordination or military operations during the past 10 years. Indeed, KR attacks on NCR units have been a continuing problem.

All of our assistance to the NCR is monitored, to the extent possible, and we know of no instances of U.S. aid having been diverted to the Khmer Rouge during the past several years.

Since all on-going negotiations regarding a Cambodian settlement revolve around an interim authority preceding elections made up of the non-Communists and the PRK, with or without the KR, and since the Khmer Rouge remain the greatest danger for Cambodia's stability in the future, it is unlikely that our assistance to the NCR would be used against the PRK rather than against the KR.

Question. It appears any military aid to the Sihanoukist groups would have to be delivered to the camps along the Thai-Cambodian border. These are the same refugee camps that for several years have been attacked and shelled by Vietnamese forces from within Cambodia.

Won't an open U.S. program of military aid to these forces simply provoke the PRK to attack the camps, and possibly even provide an excuse for Vietnamese forces to remain to safeguard that border?

Answer. We believe that, in preparation for a settlement in Cambodia, our assistance to the NCR should be increased. We believe that these elements could become an increasingly viable alternative to both the Vietnamese-supported People's Republic of Kampuchea PRK and the murderous Khmer Rouge—and that they can and will play a key role in a political settlement which serves the best interests of the Cambodian people.

Any increased U.S. assistance would be marginal in terms of the overall Cambodian military situation, and could not justifiably be used as an excuse by Vietnam not to meet its April 5 pledge to withdraw completely by September 30, 1989.

We believe that assistance to the Cambodian non-Communist, of any type and from any source, cannot and could not be used as a justification for the indiscriminate shelling of innocent civilians in the displaced persons camps—which, may I remind you, do not contain NCR military elements—along the Thai-Cambodian border.

Question. Prince Sihanouk stated this week that he is willing to accept an International Control Commission and has dropped his demand for dismantling the current government in Cambodia.

In light of these developments, would not lethal aid now destabilize an emerging peace settlement?

Answer. We believe that non-Communist Resistance (NCR) leader Prince Sihanouk must play a critical role in an acceptable settlement as leader of an interim coalition preceding elections. We also believe that our support for Prince Sihanouk and the NCR at this time continues to be essential to strengthen them to be an increasingly viable alternative in a settlement to both the Vietnamese-supported People's Republic of Kampuchea (PRK) and the murderous Khmer Rouge.

During the past year especially, both NCR groups have strengthened their forces and have made encouraging progress in expanding their presence in the interior of Cambodia. With a continuation of support, both can and will play a key role in a political settlement which serves the best interests of the Cambodian people.

We believe that providing the level and types of assistance most appropriate to the needs of the NCR will not destabilize an emerging peace process but will instead enhance the position of the NCR in that process.

The CHAIRMAN. Other than that, the remaining questions will be submitted for the record.

Thank you for your patience. I am sorry for the inconvenience and the hearing is adjourned.

Mr. BARTHOLOMEW. Thank you very much.

[Whereupon, at 12:14 p.m., the committee adjourned, to reconvene at 2 p.m., May 8, 1989.]

FOREIGN ASSISTANCE AUTHORIZATION FOR FISCAL YEAR 1990

MONDAY, MAY 8, 1989

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The committee met at 2 p.m. in room SD-419, Senate Dirksen Office Building, Hon. Terry Sanford presiding.

Present: Senators Simon, Sanford, Robb, and Pressler.

Senator SANFORD. The committee will please come to order. This is a meeting of the Committee on Foreign Relations, a hearing on foreign assistance authorization for fiscal year 1990. We are pleased to have all of you here who have agreed to come as witnesses. I will make a few remarks and then call on my colleague, Senator Pressler, for some opening remarks.

The purpose of this hearing is to hear testimony regarding the reauthorization of foreign assistance with four panels of distinguished public witnesses representing the broad range of bilateral assistance this country provides to nations around the world.

The committee has heard from the Secretary of State James Baker, the AID Administrator, Alan Woods, the Undersecretary of State for Security Affairs, Richard Bartholomew, and the Defense Security Assistance Agency Director, Lt. Gen. Charles Brown, all presenting to the committee the administration's proposals for the coming fiscal year.

Early this year when the administration submitted its budget request for fiscal year 1990, I was gratified that the requested increase for international affairs programs represented a 14-percent increase over current funding. However, as the budget summit agreement came into place and as funding assumptions for all programs within the international affairs budget function became more clear, we are faced with a vastly more modest increase in the foreign aid budget than we had originally hoped.

This afternoon our first panel will address the recommendations of the International Commission for Central American Recovery and Development. It is my hope and my expectation that this committee will find the resources necessary to make a significant U.S. contribution toward ensuring economic stability in Central America.

Our second panel will discuss a wide range of development issues including environmentally sustainable development, the role of the private voluntary community in development, and the Development Fund for Africa.

Our third and fourth panels will present testimony on the security issues in two vital regions of the world, the Middle East and the Eastern Mediterranean, respectively.

We have a full afternoon ahead of us. I would ask each witness to limit his or her testimony to about 5 minutes so that we have time for questions. It may very well be that we would like to ask you to accept additional questions for the record. In that case, any member of the Foreign Relations Committee might, in the next 2 days, want to submit questions as we establish the record looking to the authorization of these programs.

I would like to turn to Senator Pressler and invite him to make any opening remarks that he might have.

Senator **Pressler**. Thank you, Mr. Chairman. Might I say, Mr. Chairman, that you have provided a great deal of leadership since coming to the Senate in this area, and I want to thank you.

In my view we are not likely to give more aid to the Contras like we did a few years ago. Regardless of people's view of it, I do not think the Congress will move in that direction. So, I do think we have to explore developmental programs.

I have been very interested in small development projects, entrepreneurial efforts in agriculture, fishing, and small business projects. I am very interested in the Central American Recovery and Development Report, have read it and have followed the Commission's activities. We are going to have a rough road ahead in Central America, but if we step carefully and study and pursue these matters, I think we can achieve a lot.

I also want to say that I think Mrs. Szekeley's leadership of the Inter-American Foundation has been important in advocating more small entrepreneurial projects in agriculture and fishing and small business in Central America.

If you see me leave and come back later, it is because I must do a live television interview at about 2:30, and I must get into position about 2:20, so I will be gone for a while. I thank you very much, and I welcome our witnesses here, especially Arthur Levitt, whom I have come to know and admire and whose work I rely heavily upon.

Senator **Sanford**. Thank you very much, Senator.

Now turning to panel No. 1, Mr. Arthur Levitt, Jr., who is chairman of the American Stock Exchange, also the cochairman of the International Commission for Central American Recovery and Development. We would be pleased to hear from you.

Then I will call next on Mr. John T. Joyce, president of the International Union of Bricklayers and Allied Craftsmen, also a commissioner of the International Commission for Central American Recovery and Development.

Then the Honorable Richard L. McCall, the foreign policy assistant in the office of Senator John Kerry, who has been a member of the study task force to the International Commission for Central American Recovery and Development and before that was one of the original staff people to help put together this concept of supporting the development of such a Central American plan.

We will call on you in the order that I have named, starting now with Mr. Levitt.

STATEMENT OF ARTHUR LEVITT, JR., CHAIRMAN, AMERICAN STOCK EXCHANGE, AND COCHAIRMAN, INTERNATIONAL COMMISSION FOR CENTRAL AMERICAN RECOVERY AND DEVELOPMENT, NEW YORK, NY

Mr. LEVITT. Thank you very much, Senator Sanford.

The Commission, I think, was remarkable by virtue of its composition. It included 47 leaders from Central, South America, Europe, and Asia, including a former president and deputy foreign minister of Sweden, a former member of the German Bundestag, and the present Deputy Secretary of State.

After 18 months these commissioners, meeting in Managua, Stockholm, San Jose, Guatemala City, Tegucigalpa, El Salvador, and Washington, produced a report that was unanimously adopted by Sandanista commissioners, private sector leaders, economists, politicians, and academicians.

Because the commission identifies poverty, inequity, and political exclusion as central causes of the current crisis, the centerpiece of our developmental strategy is equitable, political, and economic development based on conditionality, dependent upon adherence to the principles of Esquipulas. We recommend $2 billion annually over the next 5 years from the international community to support growth rates of 5.5 percent by 1993.

Senator SANFORD. Do you anticipate that support for this development plan might come from a number of countries?

Mr. LEVITT. The most exciting part of the Commission's activities is the response that we have received from governments all over the world. I have been to Tokyo speaking to the Diet and traveled to Scandinavia and to Germany, and we have received the endorsements of these governments with great enthusiasm as well as the UNDP and the U.N. Secretary General himself.

Senator SANFORD. Senator Pressler.

Senator PRESSLER. I would like to chime in on the question here. On the plan for aid, be it public or private, I know that you did not address these things specifically, but based on my experiences in some of these countries, in Vietnam in particular, the most lasting programs sometimes are those where we give such items as individual motor pumps to farmers. This promotes private ownership, free enterprise, and small entrepreneurial projects.

How much possibility of that really is there in the region?

Mr. LEVITT. I think there is a great possibility. One of the cornerstones of our effort was a series of outreach meetings, town meetings that took place in each of the Central American countries where we gathered political, labor, private sector, and governmental leaders to talk together about these issues and to encourage self-help programs that would be initiated by this international support but would be carried forth by Central Americans themselves.

I think there is a very real chance of that.

Senator SANFORD. The effort to do something about economic aid in Latin America has been a recurring exercise by the U.S. Government going back at least to the days of Franklin Roosevelt.

Do you have a suggestion as to how this plan might be different from these various plans that we have seen in the past?

Mr. LEVITT. I think what is unique about this plan is the fact that in the first instance we were responsible to no government, no agency, no force other than our own, but that this commission is essentially a Central American commission. Most of its members come from Central America. Most of the initiatives were Central American initiatives.

The meetings took place in Central America. This group was really to the very largest extent a manifestation of a desire of Central Americans to do something themselves, and it embraced the support of groups that came from very different political views in Central America. That, I think, is the essential difference.

Senator SANFORD. Mr. Levitt, we thank you. We will put your full statement in the record.

Senator PRESSLER. Let me ask one more question of Arthur before he departs.

How do you evaluate the recent changes in the Soviet Union and how this will affect Central America? I am told by some that since Gorbachev came to power, the Soviet Union has kept putting just as much money into Central America as they did before. Others dispute this.

Should there be any adjustments or changes in our policy, and what do you predict the changes that are happening internally in the Soviet Union will affect Central America?

Mr. LEVITT. The remarkable part about the findings of the Commission was that whatever aid was generated on an international basis as a result of our recommendations be based on adherence to the principles of Esquipulas, and the Nicaraguans agreed unanimously with that recommendation.

As you know, the Esquipulas principles called for a withdrawal of foreign forces in Central America, so that I am really very sanguine. If we can move ahead with these recommendations for an international program of aid dependent upon adherence to the principles of democracy which call for the withdrawal of international forces in those countries, I believe that that will be embraced by all the governments down there.

I cannot say as to what the Soviet Union's intentions are, but I can say that the situation in Nicaragua is so desperate that their only hope out of their present dilemma is the developmental hope. That means that they would have to go along with this recommendation in order to qualify for the aid that we call for.

Senator SANFORD. Thank you. I think we will now put your full statement in the record at this point. We may very well ask you within the next 2 or 3 days to respond to other questions that might further enlighten the members of the committee.

Senator PRESSLER. Yes. I might say, Mr. Chairman, we may have some questions from the minority side, and I ask unanimous consent that they be submitted. We will submit them before the end of the day.

[The prepared statement of Mr. Levitt follows:]

STATEMENT OF ARTHUR LEVITT, JR.

Thank you for the opportunity to speak to the Senate Foreign Relations Committee about the work of the International Commission for Central American Recovery and Development. As co-chairman of this Commission, I have had the honor of sharing leadership with Sonia Picado, a Costa Rican Judge on the Inter-American Court of Human Rights, and the executive director of the Inter-American Institute of Human Rights. For me, developing the Commission's report has been an inspiring process, and I am pleased to be able to share with you the product of our many months of work.

The International Commission for Central American Recovery and Development was created in June, 1987 to draft a comprehensive plan for the economic and social development of the five Central American republics. The Commission joins 47 leaders and experts from Latin America, North America, Europe and Asia. After 18 months of intensive work, our completely independent Commission reached strong consensus. The report, released in February of this year, has been endorsed by the five Central American presidents as well as the governments of West Germany, Sweden and Spain.

The strength of the Commission's report stems from its grounding in the ideals and vision of the Esquipulas II peace accord. Inspired by the leadership of Senator Terry Sanford, the Commission responds to the Esquipulas call for international support. In the spirit of the peace accord, the Commission's membership is broadly representative of diverse social groups both within Central America and around the world. Just as Esquipulas articulated a clear set of Central American priorities and goals, the Commission has relied heavily on Central American leadership during every stage of its deliberations.

Instead of reinventing the wheel, the Commission has sought from the outset to build on previous development efforts and analyses. The work of the Kissinger Commission, for example, advocated the elimination of tariff barriers through the Caribbean Basin Initiative, and pointed out linkages between democracy and development. The UN Development Programme's "Special Plan for Cooperation with Central America" identifies development projects that stress productivity, employment and regional priorities.

The Commission drew on these initiatives in formulating a strategy for sustainable development. Because the Commission identifies poverty, inequity and political exclusion as central causes of the current crisis, the centerpiece of our development strategy is equitable economic and political development. In brief, the Commission recommends interlinked policies that promote growth with equity by stimulating productivity and exports, revitalizing regional integration, improving political access and respect for human rights, developing human resources, reforming fiscal and monetary policies, and protecting the region's natural resources.

Our report calls for $2 billion annually over the next five years from the international community to support Central American growth rates of 5.5% by 1993. This rate of growth will permit a recuperation of per capita income to their 1980 levels. With external assistance, this goal is realistic.

We urge the United States foreign aid program to support the complementary goals of our development strategy. Although the bulk of the Commission's recommendations focus on domestic and regional policy reforms in Central America, the Commission recognizes the critical contribution of foreign aid. Unless the international community lends its full and sustained support, Central American efforts are in danger of being frustrated.

The highest priority of U.S. foreign aid should be peace — a fundamental prerequisite for sustained development and democratic progress. Extra-regional military forces have complicated and hampered efforts at peaceful resolution of conflicts. External pressures for military solutions instead of multilateral dialogue and negotiation have fueled local tensions. We firmly believe that in order to end this destructive cycle, all foreign nations should undertake a concerted withdrawal of outside military aid to irregular forces and insurrectionary movements.

Furthermore, to reinforce the process of peace and democratization in Central America, the Commission urges the international community to base its diplomatic, economic and security relations with Central America on their compliance with the Esquipulas accords. By the same token, the Commission strongly urges that countries in compliance with the guidelines of Esquipulas not be denied financial assistance or trade benefits on the basis of other political criteria. Conditionality on foreign aid -- whether political or economic -- should be multilaterally defined, and should be supportive of regional cooperation and coordination.

Another immediate priority for U.S. foreign aid should be aid to refugees and displaced persons. The crisis conditions produced by a decade of civil strife and economic decline -- uprooting an estimated 2 million Central Americans -- demand swift, concerted action.

These displaced persons and refugees are presently among the most vulnerable of the 10 million Central Americans now living in extreme poverty. I urge you to support Senator Sanford's request for $25 million for the UN Development Program's efforts to aid refugees and displaced.

Consistent with this effort, the Commission proposes a set of immediate actions to address the basic needs of displaced and refugees. The plan's annual pricetag of $850 million for three years is not an emergency aid package, but a realistic first step toward helping these citizens attain employment, full social integration and self-sufficiency. As a fundamental part of the Commission's strategy to develop human resources, these monies contribute directly to sustainable development by promoting healthier, better educated workers. Improved education and health also have added benefits such as lowering birthrates, thereby reducing population pressures and contributing to social and political stability.

Over the medium and long-term, the United States can also promote growth with equity in Central America through the financial support of regional institutions and economic development, the transfer of appropriate technology, and through reduction of the region's $18 billion foreign debt. This last step is critical. Lightening the debt burden through a combination of reduction and restructuring will diminish the region's need for foreign assistance and will enable governments to enact effective, medium-term adjustment policies. Without this form of assistance, however, debt service payments will continue to place heavy pressures on waning social services and hinder opportunities for growth.

The Commission also recommends that the United States encourage other donors to assist Central America. The Commission asks foreign governments to contribute more to the region's development, and international financial agencies such as the World Bank and the Inter-American Development Bank to increase lending to Central America. The Commission also recommends that the United States cooperate in improving the coordination of aid. As my fellow Commissioner Mr. Jack Joyce will describe in greater detail, we recommend the establishment of a multilateral aid coordinating mechanism for this purpose.

In conclusion, the recommendations of this Commission are based on the Esquipulas principles of democratic development. They are intended to assist Central American leaders attain the goals they have set for their own societies. Once again, the Commission is not calling for enormous new sums of money. What the Commission does advocate, however, is a long-term commitment to support Central American initiatives, and a rechanneling of U.S. foreign aid. We believe U.S. assistance should be directed away from military solutions and toward negotiation, accommodation and the complex development challenges that face the region: enacting profound economic reforms, widening political participation, and targeting assistance to the impoverished majority. To address these challenges, the United States should work cooperatively with other governments as well as with non-governmental organizations, whose grass-roots development activities have reached millions of Central Americans during the 1980s.

Central American recovery and sustained development will require hardened resolve and sustained commitment — both within the region and abroad. I urge you to support the realization of these laudable, Central American goals.

Thank you.

Senator **Pressler**. Senator Simon, excuse me. You are so quiet.

Senator **Simon**. It is just my nature, Mr. Chairman, to be quiet.

Senator **Sanford**. Senator Simon.

Senator **Simon**. I thank you, Mr. Chairman. If I may ask just one question that is not immediately before us but will be before us very shortly; that is, military assistance to El Salvador. If you were to cast a vote on the foreign aid bill, would you vote yes or no? What would you do?

If I may go down the line, Mr. Levitt?

Mr. **Levitt**. I will not respond yes or no. If you will allow me, Mr. Joyce and I were both at Tesoro Beach at the peace conference and spent some time in Salvador. We recognize that it is a country that is severely torn. I think it is a very separate problem, and I just do not think it gives to a yes-or-no answer. I am unable to say give aid or do not give aid in the absence of fairly detailed negotiations.

Senator **Simon**. For the record, Mr. Joyce is the uncle of Ed Joyce of Chicago, IL. I will make sure Ed gets a copy of this record.

Mr. **Joyce**. Thank you, Senator.

I share some of the reservations that Arthur has in terms of trying to come down in a very hard way on the question, because as I understood it, your primary focus was on the question of military aid.

Senator **Simon**. Yes, military aid to El Salvador.

Mr. **Joyce**. My feeling would be that, frankly, if the AFL-CIO itself, which is that military aid to El Salvador needs to be conditioned specifically on some progress in the area of judicial reform in El Salvador in addition to all of the things that people refer to as vital necessities to democracy and the democratic process, an independent and a strong judiciary is certainly fundamental.

That clearly is lacking in El Salvador and is probably, in our view, the most pressing need in front of them in terms of making progress toward the democratic society that we would like to see. We therefore feel that military aid should be withdrawn or suspended unless there are adequate assurances that military reform would take place.

There is a necessity to insulate the judiciary from the problems they have in terms of threats as well as the more traditional concern of corruption in that area.

Senator **Simon**. Thank you.

Mr. McCall.

Mr. **McCall**. Fortunately or unfortunately, I will never be in a position of having to vote. My boss will vote on that.

I agree with Mr. Joyce and Mr. Levitt. I think it is a very delicate situation in El Salvador these days, and whatever aid we make available, there will have to be strong conditions attached to it. Whether that will exacerbate the situation if we move to cut military aid at this time I think is open to question.

I think it is extremely delicate. It would probably be more prudent to wait and see how things sort themselves out in the coming months before that decision is made.

Senator **Pressler**. If my friend from Illinois would yield, a great Illinoian, Adlai Stevenson, once said when he saw Eisenhower, "To the victor belongs the toil." So, I guess this illustrates that those of us who won the elections have to vote, but we would appreciate any further thoughts you have on that. That is a sticky one.

Senator **Simon**. Thank you very much.

Thank you, Mr. Chairman.

Senator **Sanford**. Thank you, Mr. Levitt. We will move now to Mr. Joyce.

I think maybe, Mr. Joyce, you intended to talk essentially about the coordinating efforts.

As I pointed out earlier, Mr. Joyce was a member of the Commission, he did some especially good work on looking to how you would coordinate the implementation of this program.

Senator **Simon**. Let me apologize, Mr. Chairman. I thought all three witnesses had made their statements and that we were in the questioning period.

Senator **Sanford**. That is all right. They did not mind answering. They would not have answered a bit better if they had fully completed their statements, either. [Laughter.]

STATEMENT OF JOHN T. JOYCE, PRESIDENT, INTERNATIONAL UNION OF BRICKLAYERS AND ALLIED CRAFTSMEN, AND COMMISSIONER, INTERNATIONAL COMMISSION FOR CENTRAL AMERICAN RECOVERY AND DEVELOPMENT, WASHINGTON, DC

Mr. **Joyce**. Mr. Chairman, with your permission, what I would like to do is submit to the committee the written observations that I have made on this question of the Central American issue.

Senator **Sanford**. Very well. We will put that in at the proper time. Thank you.

Mr. **Joyce**. Very good. What I would like to do is just underscore the primary reason behind the Central American Development Coordinating Commission. We feel that it is a key provision of the Commission's report in that it provides for a process, a self-enforcing mechanism which assures that there will be the linkage that has so often been lacking in the past between development aid and progress toward democracy.

One of the major difficulties, we feel, with aid programs in the past has been that the focus has been primarily on questions of economic development. As important as they are in the final analysis, it must be understood that the building of democratic institutions is appropriately treated not as an adjunct to but rather as the key to political democracy, social reform, and economic development.

Now the mechanism that the Commission has recommended is one that would consist of representatives from each of the nations that are providing contributions to development aid in Central America as well as representatives from each of the recipient countries in that region.

The idea is that there would be representatives from labor and management as well as government. In that regard, the model that we drew on in the Commission was that of the International Labor Organization, which as I believe everybody is aware consists of representatives from the private sector as well as government in terms of dealing with and treating with manpower and economic issues in the nations that are a party to the international labor organization.

Now that tripartite mechanism in the ILO has directly contributed to the fact that the ILO is the only surviving entity of the League of Nations and, therefore, the oldest agency of the United Nations, and we felt it would be a model that would make sure that the people are most impacted by development programs, would have not only a voice in determining what the nature of those programs would be but also they would be in a position to see whether in fact those programs were being utilized in the way that they were intended.

They will be the people who, outside of government representatives, are closest to where those funds are being utilized. They can blow the whistle if there is any diversion of those funds either because of corruption or because of misguided, misdesigned programs.

Now we actually added to the model of the ILO by drawing on the postwar experience of the most economically developed and advanced European countries, Austria, Germany, the Scandinavian countries, who added to that social partnership of labor, management, and government, representatives from the professional communities and the agricultural communities.

In that way, every sector of society that has a stake in economic decisionmaking is brought into play on it, and we think that since there is a tried and proven track record for an institution of this nature that it would make sense to apply such a model to the administration of the development funds.

Incidentally, in the course of our discussions the thought, the suggestion came up that possibly we approached the ILO to see if they would be willing in some way to provide either expertise or some administrative facilities since they are so familiar with the workings of such a process.

Mr. Chairman, I would be happy to answer any questions that you may have either now or later on. Thank you.

[The prepared statement of Mr. Joyce follows:]

STATEMENT OF JOHN T. JOYCE

Mr. Chairman, I wish to thank you and the other distinguished members of this committee for your interest in the problems of, and potential long term solutions for, Central America. It is particularly important during these days of cease-fires, peace plans, and negotiations for the creation of a Central American Parliament, that we avail ourselves of new opportunities afforded by rapid political changes so that we may move effectively in support of the democratic governments and institutions of this vital region. The formation of economic policy toward Central America must certainly be made less politically complex to the degree that we are dealing with democratic neighbors.

The Esquipulas Agreement, based on the Arias plan, provides the first realistic hope in many years for peace and democratic progress throughout Central America. If the process begun in the Esquipulas should fail, it will, in all probability, be many years before circumstances again converge in a way to make another such initiative possible. Every effort should therefore be made to revivify the process.

The underlying problems which led to the current situation in Central America are regional in nature: each country presents but one specific manifestation of a general situation. This is not to say that each country has the same problems, or that the same economic and political solutions would be effective in all of the countries. That approach would be highly counterproductive because each country has its own unique mix of human and material resources, its own unique configuration of problems, its own unique history and traditions, indeed its own unique character. But there can be no lasting political and economic solutions in any one country which do not address the regional nature of the core problems of the area: poverty, the lack of an appropriate economic market infrastructure, and, except for Costa Rica, the absence of sustained democratic structures and traditions.

Previous development programs in the region have not been fully effective because they were not accompanied by concurrent development in political and economic democracy: absent an equitable distribution of wealth and political power, neither industrial policies nor political regimes are likely to prove enduring. Without democratic progress, there will be no peace: without peace, there will be no economic development.

Both economic development and democratic progress must be "homegrown", neither can be imported nor imposed, each is a continuing process which must, if it is to endure, be generated-created-forged by those who are a part of the process: The objects of the process must be the subjects as well.

While the primary reconstruction and development efforts must be by and for Central Americans themselves, a substantial amount of aid from foreign countries will be none-the-less necessary to achieve democratic and economic progress within what may be a relatively narrow window of time provided by the Esquipulas process.

International trade, aid and investment programs aimed at developing the economies of Central America should be of a nature which reinforces the Esquipulas thrust toward peace and democracy. International development programs should, therefore, be contingent upon acceptance of and continued progress toward peace and the protection of personal and economic liberties: freedom of expression, freedom of association, respect for human rights, and an independent system of equal justice. Thus, the building of democratic institutions would be appropriately treated not as an adjunct to, but rather, as the key to political democracy, social reform and economic development.

International development programs for Central America must also be continuing rather than intermittent, administered in accordance with stable management practices and policies, and non-discriminatory -- while the program for each country will need to be different, the same standards must be applied to each country. All of these characteristics recommend setting up a multilateral development coordinating program tailored to the unique Central American situation. Each nation, however, does have its own mix of problems, and each nation has developed historical relationships with other nations that it will wish to maintain. Bilateral aid and development will therefore continue to be an important factor in the region. The major thrust of the international development effort, however, should be multilateral, and increasingly so as the various regional institutions created by the Central American governments and institutions augment their capacity to handle more programs.

To assure the necessary continuity in aid programs, the governance of development aid programs must be structured so as to inherently minimize bureaucratic waste, misdirection and corruption. Furthermore, the aid governance process should, of its nature, build public support for aid to Central America in donor countries, and confidence, self-reliance and hope for a better tomorrow in the citizens of recipient countries.

A Central American Development Coordinating Council (CADCC) should therefore be created as a symmetrical, multilateral forum where donor and recipient countries can coordinate aid policies and programs. The purpose of the council would be to assure that international trade, aid and investment programs focus as they are designed and administered on the objectives outlined in the Esquipulas Plan. The coordinating council would also foster compliance with regional industrial policy; avoid duplication and overlap; minimize gaps in linked development programs; encourage synergistic relationships between individual programs whenever possible.

The operations of the Coordinating Council should in itself be an exercise in the democratic process, involving the Social Partners from each of the donor and recipient countries. In terms of continuity and longevity, the council would, in this regard, borrow from the International Labor Organization. The tripartite structure - unions, management and government - of the ILO is credited with both the effectiveness of its operations and the fact that it is the only surviving body of the League of Nations. As such, it is also the oldest United Nations agency. The social partnership envisioned here, however, would borrow from the concept as it evolved in the most economically effective European nations: Austria, German and the Scandinavian countries. They have broadened the Social Partnership to include the professional and agricultural communities as well as labor, management and government. Such a model would be consistent with the realities and history of Central America.

Most importantly, CADCC would institutionalize the participation of social partners in the economic development and aid distribution process. Not just the governments but unions, employers, non-governmental organizations (NGO's) , professionals and agriculture would participate in a fashion modelled after the process of the International Labor Organization. Indeed some discussion has touched on the use of the ILO's expertise in such matters.

These social partners would have a hand in coordinating aid that had heretofore been left exclusively in the hands of government and bank bureaucrats. Their record of corruption and inefficiency recommends the participation of new players who are closer to the needs of the people of Central America, particularly the workers.

In sum, economic development programs should be influenced most by those who have the greatest stake in society, those for whom the absence of development means, not mortified pride or stinted luxury, but want and pain and degradation. Their inclusion assures that the link between economic, social and political development will be given more than lip service.

CADCC, as envisioned by the Commissioners, would combine a number of benefits for both North Americans and Central Americans. Our aid, which frankly should have always had the political motive of fostering democracy, would now be more closely tied to that end. The criteria of success of an aid program would now be social and political as well as economic. And the organizations which would judge that success would themselves be Central American. Democratic progress and the honoring of human rights would be the criteria to be reviewed by those Central Americans most affected.

Our foreign policy challenge is to support Central Americans in their efforts to exercise their rights and to enjoy the benefits of their freedom. The initiative must come from them, but we can help and CADCC provides one means to do this. Significantly, there is no conflict between the values of North Americans and Central Americans as expressed by the CADCC concept, and certainly none between CADCC goals and a bipartisan U.S foreign policy. CADCC will, in addition, enhance and encourage the spirit of cooperation and partnership between Central Americans and the United States.

Senator SANFORD. The Senator from Illinois.

Senator SIMON. I have no further questions. Thank you.

Senator SANFORD. Let me ask you, what would be the first step in the implementation? Who would make the first move?

Mr. JOYCE. Well, obviously there is a complex series of steps that would be required since we would be dealing not only with the five countries in Central America but also the seven or more countries from around the world that have expressed some interest in contributing to the development process in Central America.

Perhaps one of the most fruitful steps would be to find some way in the immediate future to make it possible for the Commission to serve as a coordinating mechanism between these various countries and people within those countries who are interested in furthering the process.

One idea that may make sense for the United States to give some thought to would be to create as soon as possible a bipartite committee in the United States with representatives from the House and Senate, from possibly the State Department or other parts of the executive branch as well as the private sector, to advance the development of the overall program in the United States and to coordinate with other countries in moving in the same direction.

Senator SANFORD. Do you see a role for the Central American presidents in initiating it?

Mr. JOYCE. We do, indeed. As Arthur Levitt mentioned, we were at Tesoro Beach to make sure that the five presidents were briefed on the developments of the Commission. In addition to that, there have been fairly extensive meetings with the foreign ministries of each of the Central American countries, and based on everything that has come to our attention, there is a fair amount of enthusiasm for the idea. Indeed, at one juncture President Arias referred to the whole process that we are involved in as the next phase of the Esquipulas process.

Senator SANFORD. It seems to me there has to be some convening authority to invite the various parties to participate.

Mr. JOYCE. Well, that convening authority in a sense could be the Commission, or it could be a U.S. committee to further these objectives. There may be other better ideas, but these are just two that come to mind right now.

Senator SANFORD. Thank you very much, Mr. Joyce. We will indeed put your full statement in at this point.

Again, may I ask you to respond to one or two other questions that will be helpful to the committee? Thank you.

[Questions submitted by the committee follow:]

Senator SANFORD. If there is no objection from the committee, I am going to excuse Mr. Levitt, since I know he has a plane to catch, unless you want to hold him here, Senator.

Senator SIMON. If I want a favorable article in rollcall, I do not want to hold him here. [Laughter.]

Senator SANFORD. We certainly do thank you for being here, Mr. Levitt, and beyond that, thank you for your tremendous contributions to bringing into reality this Commission report we are now considering.

Mr. LEVITT. Thank you very much.

Senator SANFORD. Mr. McCall.

STATEMENT OF RICHARD L. McCALL, FOREIGN POLICY ASSISTANT, OFFICE OF SENATOR JOHN F. KERRY, AND MEMBER OF STUDY TASK FORCE TO THE INTERNATIONAL COMMISSION FOR CENTRAL AMERICAN RECOVERY AND DEVELOPMENT, WASHINGTON, DC

Mr. McCALL. Thank you, Mr. Chairman.

As Mr. Levitt said, this was one of the most unique commissions ever assembled for the purpose of attempting to bring people together in focusing on problems of a given region of the world.

One of the most unique aspects of this Commission was the fact that 20 members came from the Central American region itself. They represented highly divergent political and ideological views, but they came together and they produced a consensus document.

Just as important as what is contained in this consensus document is the process by which it came to fruition, for just as the conflict in Central America stems from the massive poverty, social inequity, closed political systems and external interference in some countries, ideological rigidity on the part of certain sectors has also prevented any meaningful dialog to take place as a means of diffusing crises.

This has bred intolerance, which has led to repression, which has led to armed conflict. As the intensity of the conflicts has increased in brutality and duration, so has the political polarization.

Over the past 7 years that I have been involved with this region, what has struck me is the seeming inability of people of goodwill to get together and begin the process of addressing and solving their own problems.

In many ways, the experience of the individual commission members represents a microcosm of what can be accomplished at the national and regional levels in Central America. If given the opportunity, the encouragement, the incentives and the appropriate mechanisms, the people of Central America can and will sit down together and work out their own problems.

Although the Commission has issued a report, the work cannot stop here. It is imperative that the Congress and the administration develop a legislative package implementing the recommendations of the Commission. I will not go into any of the details, but my prepared statement has a series of recommendations as to what should be included in such a legislative package as we enter the foreign aid markup process in the coming weeks.

Senator **Sanford**. Let me ask you to elaborate a bit more on what distinguishes this report and plan from previous plans that we have put into effect as an effort by the United States to be of assistance to Latin American countries.

Mr. **McCall**. I think what comes closest, and it did not equal by any stretch of the imagination, was the Alliance for Progress. President Kennedy, before he announced the Alliance for Progress, sought the advice of leading Latin American economists, but what he sought was advice as to how to structure an alliance program and what the United States should focus upon.

What the Commission did over an 18-month period was to bring people together from the region, as I said, of very diverse political and ideological views, people who would never talk to each other before, and gave them the opportunity to sit, debate, discuss, and finally reach a point where they all agreed we have serious problems in the region and we had better begin addressing these problems.

Out of that came a document with a series of recommendations, first of all, identifying and reaching agreement on a definition of what the problems are and, second, a series of recommendations as to how these problems can be addressed.

I think it is a rare thing that has happened. It is a very unique thing that has happened. It pulled together a group of people together to do something I think U.S. policy should be attempting to do and can do if the recommendations of the Commission are implemented.

It was a unique experience from the standpoint that it drew upon the talents of the people themselves from the region.

[The prepared statement of Mr. McCall follows:]

STATEMENT OF RICHARD L. McCALL

Mr. Chairman:

First, I want to commend the work of the International Commission for Central American Recovery and Development. The Commission is truly unique in so many respects.

Of the 47 individuals who served on the Commission, representing twenty different countries from Latin America, Asia, Europe, and North America, 20 came from the Central American region itself. These twenty Commissioners represented very diverse ideological views. Many had never entered into a conversation, let alone a dialogue, with their fellow countrymen before their experience as members of this Commission.

Yet, not only did twenty Central Americans come together to engage in an intense dialogue focusing on the social, economic, and political problems of their countries, they also produced a consensus document, despite the ideological diversity of their views. This document, the Report of the International Commission on Central American Recovery and Development, offers an important blueprint for reconciliation and reconstruction in the region.

The report details the root causes of the present conflict in the region, the need for marcroeconomic reform in each of the affected countries, the need for policies promoting social equity and political pluralism, and offers a program for addressing one of the most serious and immediate problems -- that of the plight of nearly two million refugees and displaced persons, principally from Nicaragua, El Salvador and Guatemala. Finally, the report calls for a multi-donor effort to promote the economic, social, and political integration of the vast majority of the population of the region into the mainstream of their societies.

But just as important as what is contained in this consensus document, is the process by which it came to fruition. For just as the root causes of the conflict in Central America stem from the massive poverty, social inequity, closed political systems, and external interference in somce countries, ideological rigidity on the part of certain sectors has also prevented any meaningful dialogue to take place as a means of diffusing crises. This has bred intolerance, which has led to repression, which has led to armed conflict. And as the intensity of the conflicts have increased in brutality and duration, so has the political polarization.

Over the past seven years that I have been involved with this region, what has struck is the seeming inability for people of good will to get together and begin the process of addressing and solving their own problems. Yet, I firmly believe that the will and desire to do so is greater than ever before. It certain has been, and continues to be, demonstrated at the regional level in the peace process undertaken by the five Central American Presidents. And as the work of the Commission demonstrates, it can be accomplished internally in each of the Central American countries themselves.

In may estimation, the most important contribution of the Commission was in bringing together people from the region of differing ideological views to begin a process of dialogue. Many individuals who neither had the opportunity, nor the inclination, to sit down at a table together, dod so over the course of eighteen months. They argued, they debated, but they agreed upon the nature of the problems that the region and their individual countries faced. And they reached a consensus, as Central Americans, that they had better start working together to find solutions to these problems because time was running out.

In many ways the experience of the individual Commission members represents a microcosm of what can be accomplished at the national and regional levels in Central America. If given the opportunity, the encouragement, the incentives, and the appropriate mechanisms, the people of Central America can, and will, sit down together and work out their own problems.

Although the Commission has issued a report, the work cannot stop here. It is imperative that Congress and the Administration develop a legislative package implementing the recommendations of the Commission. Such a package should contain the following:

-- Language in the Foreign Assistance Act directing the United States to take the leadership role in creating a multi-donor, reconstruction and long-term development effort in Central America.

--The maintenance of last year's foreign assistance levels for each country in the region, with the levels of assistance earmarked for each individual country.

-- Compliance with Esquipulas II should be the criteria by which provision of assistance to each country in the region is judged.

-- The provision of seed money for the creation of a Central American Development Coordination Commission as recommended by the International Commission. As envisioned by the Commission, the CADCC would be multisectoral, regional, and multilateral in composition As a multisectoral body, the CADCC would involve representatives from a broad range of social sectors as a means to facilitate consensus on national and regional economic and social programs. The role of CADCC would be to ensure that equity and efficiency are the central goals of all development efforts; to provide a mechanism through which the Central American nations themselves can coordinate regional development objectives; and to provide a forum whereby aid resources from the bilateral and multilateral donors are coordinated to avoid absorptive capacity problems and to ensure the long-term sustainability of the projects.

-- National Commissions for Recovery and Development, patterned after the National Reconciliation Commissions, should be established in each country. This would enhance the work of the CADCC by assuring multisectoral participation in the decision-making processes affecting project formulation and implementation.

--The provision of a U.S. contribution of $25 million to the United Nations Development Program's Special Plan of Economic Cooperation for Central America. This plan was agreed to by the five Central American countries in April 1988. The immediate priority for the Special Plan is the implementation of programs with the region's refugees and displaced persons. The Italian government has already pledged $115 million for these program and additional resources are expected during the pledging conference scheduled for May 29-31 in Guatemala City.

The UNDP Special Plan has attracted $500 million in pledges to be used for refugee and displaced persons resettlement, for the revitalization of the agricultural sector in the most seriously affected countries, and the reconstruction of the region's institutions and infrastructure, such as electrical grids.

-- The provision of $1 million to UNDP to be used to strengthen that organization's on-the-ground capabilities in the region.

Within the CADCC concept, UNDP has a unique role to play as the technical secretariat for the implementation of sustainable social programs. These programs will become all the more necessary as macro-economic reforms are undertaken in each country. It is important that a social safety net of programs be created to avoid the further destabilization which the economic reforms will bring.

The work of the Commission offers both a programmatic and human blueprint for reconciliation and reconstruction in the region. One of the most useful roles the United States can play in the region is to facilitate the implementation of the Commission's work. The opportunity for reconciliation and reconstruction is there, if we have the wisdom to assist the Central Americans themselves in this effort.

Senator SANFORD. What do you think the chances of success are?

Mr. MCCALL. I think if the Commission's recommendations are implemented, it will have a significant impact on the long-term stability of the region. I think there is willingness on the part of people in the region to sit down and talk to each other and work together if they have the vehicle by which they can accomplish this.

One of the things that I think should be included in any legislative package or any developments in the region is the establishment of national commissions for reconstruction and development patterned after the national reconciliation commissions so that you have a broad representation in the planning, design, and implementation of individual projects and attempt to build social consensus within this country as well.

Senator SANFORD. I believe your statement touches on the kind of package that would be needed by the U.S. Congress and the administration.

Do you want to elaborate on that?

Mr. McCall. I think basically, first of all, bilateral aid levels to the region have to be maintained at last year's level.

I also think, since the performance under the Commission proposals is judged by adherence to Esquipulas, too, that each country should be earmarked so that at least for planning purposes they know exactly what resources, at least from a bilateral standpoint, will be available to them.

That is very, very important, something that did not occur under the alliance. The availability of resources did not allow for adequate planning.

Second, one of the major recommendations of the Commission is to address one of the most serious and destabilizing problems in the region, that of refugees and displaced persons. The United Nations Development Programme already is in the process of enacting a "Special Plan of Action" for Central America, addressing the refugee needs.

I think it would be very prudent for the United States to contribute a minimum of $25 million to this effort because it is not only resettlement of refugees and displaced persons, but it is also starting the process of sustained development for these people as well. $1 million will be needed for UNDP's regional efforts to strengthen their on-the-ground presence in the region. I think that is critical to their activities.

Those are the major money areas that I see as important.

Senator **Sanford**. How do you relate those recommendations to the proposals and suggestions both that Mr. Joyce made and that are indeed included in the Commission's report? In other words, how does that relate to the overall international coordination?

Mr. McCall. I think there has to be an establishment of a Central American development coordinating commission, or whatever entity, but it has to be a multidonor coordinating effort.

We have had previous experience in this area. The Sahel Development Program basically came out of an initiative by the Congress in the early 1970's to establish a multidonor effort to deal with the problems in the Sahel. We have had similar programs for Southern Africa. You have a program in the Caribbean as well as a multidonor effort.

It is imperative that such an effort have a multisectoral involvement so that the people of the region themselves are part of the decisionmaking processes.

Second, you need a coordinating mechanism to coordinate donor flows to avoid the problem of absorptive capacity in the countries themselves and to actually ensure that you have sustainable development projects over the long term.

The formation of such an entity also, I think, will attract significant resources not only from the multilateral financial institutions but from Western Europe and Japan as well, as I think the experience of the Commission demonstrates.

It also sends a signal that the United States is not going to abandon the region, that it is a change basically in the way we are going to approach the problems of the region and that we will sustain an involvement as long as it takes to achieve social reforms, economic reforms, and stability that I think everybody desires.

Senator **Sanford**. Senator Simon.

Senator **Simon**. I am just talking with the staff here after reading Mr. Joyce's statement and your statement. You have in your statement here language in the Foreign Assistance Act directing the United States to take the leadership role in creating a multidonor reconstruction long-term development effort in Central America.

I think it is important not only that we have seed money in here but also that we have that language that directs the United States to take a leadership role here. I hope that we can include that.

I have no other questions, but I appreciate the leadership of both of the witnesses here.

Senator **Sanford**. Thank you.

Do either of you have anything you would like to add?

Mr. **Joyce**. No.

Mr. **McCall**. No.

Senator **Sanford**. If not, let me thank you very, very much not only for being here today but for all of the work that you have done to help define the problem and work toward the solutions.

Thank you very much.

Mr. **Joyce**. Thank you, Mr. Chairman.

Mr. **McCall**. Thank you, Mr. Chairman.

Senator **Sanford**. Now we will invite the next panel, Mr. Hellinger, Mr. Stoel and Ms. Pauling, to please come forward. We will have nameplates there for you

Mr. Siglin, I apologize for not calling your name. It is on the next page. Ms. Pauling is not here yet, however. I am told that she is on the way.

We would, of course, receive your statements in full at the appropriate place in the record. We would be pleased to maybe have you answer additional questions if other committee members care to put them to you. That would help in the decisionmaking. This is, of course, for the purpose of considering the authorizations.

I will ask you to give us about a 5-minute statement summarizing your points, and I assure you that your full statements will be given very careful attention.

Stephen Hellinger is the codirector of the Development Group for Alternative Policies, the Development GAP, and Mr. Stoel is the director of the National Resources Defense Council International Program. Mr. Siglin is the director of Public Policy Interaction, and Ms. Sharon Pauling is with Bread for the World and is particularly an analyst for African policy.

We will follow in this order if we may and start with Mr. Stephen Hellinger. Thank you very much for being here.

STATEMENT OF STEPHEN HELLINGER, CODIRECTOR, DEVELOPMENT GROUP FOR ALTERNATIVE POLICIES, WASHINGTON, DC

Mr. **Hellinger**. Thank you, Mr. Chairman, and thank you for the opportunity to address the committee on the future of foreign aid. This issue has been the focus of the Development GAP for the past dozen years. During that time, we have worked in some 30 countries with the World Bank, AID, and smaller aid institutions and with Third World public, nongovernmental and grassroots organizations.

We have also worked extensively with Congress in translating this experience into policies relevant to Third World realities.

This testimony also reflects to a large extent the views of a coalition of some 30 U.S. nongovernmental organizations which have come together over the past few months to respond to the initiative taken by the House Foreign Affairs Committee to reform the U.S. bilateral aid program.

In this regard, I would like to submit for the record a letter that this coalition has written to the committee chair, Mr. Fascell, expressing our view of the committee's undertaking as well as a summary of a set of policy proposals that we have submitted to the committee.

[The information referred to follows:]

APRIL 20, 1989.

The Hon. DANTE B. FASCELL,
Chairman, Committee on Foreign Affairs, U.S. House of Representatives, Washington, DC 20515

DEAR REPRESENTATIVE FASCELL: Over the past several weeks, a broad coalition of U.S. nongovernmental organizations has addressed the future direction of U.S. foreign assistance in response to the initiative taken in this area by your committee. As the committee prepares to translate this initiative into legislative action, we wish to communicate to you our continuing concerns about the present discussion draft and the form that it appears ultimately to be taking. These concerns are shared by many of the other organizations cited in our letters of March 13 and March 17.

From the beginning, our community has worked with the committee to fashion a more effective approach to foreign assistance. Many of us had the opportunity to address the committee's task force and to respond to its report. Despite concerns that many of us had about the report, we used it as a starting point for developing, through a broadbased consultative process, a set of policy proposals. This document, entitled the "Development Cooperation Act of 1990," was sent to you and the other members of the committee last month for consideration. We saw this work as a complement to the committee's own drafting effort.

The NGO coalition took the next step of integrating our proposals with the committee's discussion draft. We saw this as the most constructive contribution we could make to the committee's undertaking and the best way to address the shortcomings we saw in the discussion draft, while conveying to the committee the matters that are important to us as a community.

We subsequently discussed the "integrated bill" with committee staff in a small meeting and then last week in a larger NGO forum. In those sessions, we felt that we conveyed to the committee staff two clear messages: that we still see serious shortcomings in the committee's discussion draft and that the "integrated bill" addresses many of the concerns expressed by members of our community.

Central to our concerns are four matters communicated to you in previous correspondence. First, the four objectives and the other policy directives in the discussion draft need to be better defined and integrated so as to provide a clear mandate to the administration to underwrite the type of development valued by the NGO community and our Third World counterparts. Second, it is necessary to build mechanisms of consultation into the legislation to ensure that Third World NGO's and their constituencies can give informed direction to our aid decisionmakers. Third, there should be much stronger mechanisms of accountability, monitoring, and oversight in the bill. Finally, there is a need for assurances that development concerns will be separated and insulated from short-term foreign policy objectives.

We have not as yet received any indication that the committee is adequately addressing these concerns. While there are other matters of considerable importance, we wish to convey to you at this point that we will not be able to support the committee's draft unless fundamental changes are made in the areas indicated above.

The "integrated bill" addresses these concerns directly. Along with the Africa and Caribbean bills, which would be included in the regional titles, it would constitute legislation that we could not only accept, but could actively promote. It would provide a vehicle for underwriting a type of development—environmentally sustainable, self-reliant, participatory, and equitable—that our constituencies can strongly support. We hope that you and the committee will give serious consideration to utilizing the "integrated bill" as the basis for further deliberations both on and off the Hill.

Knowing how busy you are, we have not pressed to date for a meeting with you. In light of the wide gap that appears to still exist, however, between the discussion draft and our proposals, we feel that it is critically important that we meet with you on this matter as soon as it is possible for you to do so. It is our strong hope that we can reach an understanding that would enable us to support the initiative that you and the committee have taken.

Sincerely,

ELMIRA NAZOMBE,
Bread for the World.
STEPHEN HELLINGER,
The Development GAP.
LARRY WILLIAMS,
The Sierra Club.

On behalf of:
Abigail Adams, Friends Committee on National Legislation
Bill Ayres, World Hunger Year
Jim Barnes, Environmental Policy Institute/Friends of the Earth/Oceanic Society
Pat Baldi, National Audubon Society
Barbara Bramble, National Wildlife Federation
Sister Maura Browne, Africa Faith and Justice Network
Carol Capps, Church World Service
Dan Connell, Grassroots International
Keith Gingrich, Mennonite Central Committee, Washington Office
Bill Goodfellow, Center for International Policy
Bill Goold, International Labor Rights Research & Education Fund
John Hammock, Oxfam America
Mary George Hardman, Survival International USA
Pharis Harvey, The Korea Coalition
Arthur B. Keyes, Jr., Interfaith Action for Economic Justice
Marianne Leach, CARE
Fritz Longchamps, Washington Office On Haiti
Robert J. McCloskey, Catholic Relief Services
Rev. Mark Mengel, Colombian Fathers Justice & Peace Office
Russell Morgan, National Council for International Health
Mary Jane Patterson, Presbyterian Church (U.S.A.), Washington Office
John Prendergast, Center of Concern
Michael Rigby, RESULTS
Jack Sheehan, United Steelworkers of America
Thomas B. Stoel, Jr., Natural Resources Defense Council
Lori Udall, Environmental Defense Fund

Mr. HELLINGER. You may also wish to enter in the record, Mr. Chairman, our complete policy document, the proposed Development Cooperation Act of 1990. Our coalition has subsequently integrated this document with the bill recently drafted by the Foreign Affairs Committee.

[The information referred to follows:]

THE DEVELOPMENT COOPERATION ACT OF 1990: A PROPOSAL FOR U.S. SUPPORT OF EQUITABLE AND SUSTAINABLE DEVELOPMENT

Ongoing economic, political, and social and environmental crises in the Third World have led religious, environmental, hunger, human rights, and development groups, as well as the U.S. public and policymakers, to question the effectiveness of current U.S. foreign assistance programs in promoting long-term sustainable development. In response to the efforts of the House Foreign Affairs Committee to rethink foreign assistance, a broad range of nongovernmental organizations (NGO's) have contributed to the drafting of the "Development Cooperation Act of 1990." Its purpose is to help U.S. development assistance become more effective in the promotion of a process of long-term development that is equitable, participatory, environmentally sustainable, and self-reliant.

The draft bill draws heavily from and incorporates the Africa Famine Recovery and Development Act, the Caribbean Regional Development Act, and existing and proposed legislation on the environment and women in development. It has the following key features:

1. *A shift in the priorities of development assistance to build upon activities of the poor.*—As defined in this draft bill, development assistance supports the expansion of the participation of women, the landless, subsistence producers, migrants, and others that make up the poor majority through processes of economic development and growth that enable them to: (*a*) increase their income and access to productive resources and services; (*b*) protect and advance their rights; (*c*) influence the decisions that affect their lives; and (*d*) pursue a strategy of development that is ecologically sound and in which a balance is found between resources available and the needs of local populations.

2. *Consultation with the poor at all stages of the development process.*—In order to provide more responsive, effective development assistance, the implementing agency is mandated to take into account the perspectives of the poor in all stages of the design and implementation of assistance policies, programs, and projects through close and regular consultation with Third World organizations that work with the poor and that have demonstrated effectiveness in or commitment to the promotion of local, grassroots development. The draft bill mandates that particular attention be paid to the active participation of women in determining development policy and in project and program identification, design, management, implementation, and evaluation.

3. *Protection and promotion of peoples' rights and human health.*—The provision of development assistance is denied to any government that systematically violates or that does not take steps to protect and promote internationally recognized human rights, internationally recognized worker rights, the rights of women, indigenous people, and other distinct population groups and the rights of all people to organize and associate freely. In addition, the provision of assistance is prohibited for the purchase of any chemical or other substance if its use is not permitted under laws of the recipient country or the United States. Any person may submit a petition to the implementing agency to ensure enforcement of the above provisions.

4. *The inclusion of priority areas in support of long-term development.*—The four priority areas of assistance are: (*a*) the protection and enhancement of the natural resource base through production methods suited to local environmental conditions and the development of renewable energy resources; (*b*) the improvement of forestry management and the promotion of sustainable agriculture to satisfy local needs; (*c*) the enhancement of human welfare through improved education and self-sustaining community-based primary health care and voluntary family planning services; and (*d*) the integration of national and regional economies through support for community-based small and medium enterprises and the strengthening of regional infrastructure.

5. *Reduction of debt and promotion of equitable development.*—The President may waive payments of interest and principal on loans incurred by those governments of the relatively least developed countries that have not consistently used U.S. foreign assistance funds for purposes other than the improvement of the well-being of their citizens. Local governments may repay any principal and interest on loans in local currencies to be used and managed by indigenous nongovernmental organizations. The implementing agency is prohibited from using development assistance to finance debt reduction measures.

6. *The creation of an independent aid agency.*—A Development Cooperation Administration (DCA) is established as an independent agency and the principal bilateral aid institution of the U.S. Government. Under this new agency, aid is divided into two categories: (*a*) program assistance, which is given on a multiyear basis to those governments and public agencies that have exhibited a commitment to a form of development that directly benefits the poor; and (*b*) project assistance which is provided to the most capable governmental and nongovernmental institutions in any country including those not designated "program countries." The draft bill also mandates the continuation of the Inter-American Foundation and the African Development Foundation.

7. *The separation of security assistance from development assistance.*—In order to ensure that development assistance supports the objectives and priority areas delineated in the draft bill, the DCA is designated the principal vehicle for U.S. bilateral development assistance, while the management and application of security supporting assistance remains under the jurisdiction of the State Department.

8. *The creation of a Center for Private and Voluntary Cooperation.*—A Center for Private and Voluntary Cooperation is created within the DCA to : (*a*) encourage fuller cooperation with indigenous NGO's in the implementation of U.S. development assistance; (*b*) provide grants to support the design and implementation of de-

velopment assistance projects by U.S. NGO's in conjunction with local organizations; (*c*) develop basic policies, procedures, and criteria for programs and projects in support of private and voluntary organizations; (*d*) direct programs of development education to the U.S. public; and (*e*) assess the effectiveness and impact of such private organizations on development.

9. *Greater accountability to the U.S. public and the Third World poor.*—The Office of Technology Assessment is designated to monitor and evaluate the effect of U.S. development assistance programs and policies and the progress made by U.S. development assistance in achieving the goals delineated in this draft bill. Required reports shall be submitted to newly created Committees on Development Cooperation Oversight in the House and Senate.

A Citizens Advisory Committee on Development Cooperation comprising leaders of U.S. NGO's is designated to monitor implementation of this draft bill and suggest actions to ensure adherence to its mandate. In addition, the President is required to develop a plan to ensure that U.S. development assistance contributes to the achievement of the goals of this draft bill.

THE DEVELOPMENT COOPERATION ACT OF 1990

Section 101. Findings

The Congress finds as follows:

(1) United States interests in the Third World lie primarily in the advancement of long-term, mutually beneficial economic and political relations. These relations, as well as humanitarian objectives, can best be furthered by promotion of long-term development through a process of economic growth that is equitable, participatory, environmentally sustainable, and self-reliant.

(2) Development involves a progressive transformation by the people of their economy and society. Physical sustainability cannot be secured unless development policies pay attention to such considerations as changes in access to resources and in the distribution of costs and benefits. Meeting essential needs similarly requires that the poor receive their fair share of the resources needed to sustain economic growth. Both objectives imply a concern for social equity between and within each generation. Such equity is aided by political systems that secure effective citizen participation in decisionmaking and by greater democracy in international decisionmaking.

(3) The promotion of equitable development, environmental sustainability and increased economic self-reliance requires support for the activities of the poorest citizens through organizations in which they actively participate and for the reform of macroeconomic policies to ensure that they foster such investments rather than impose austerity measures on the most vulnerable groups.

(4) The degradation and depletion of the natural resource base in the Third World have a variety of causes, including population growth rates that often exceed the rate

of increase in resources available to the poor majority and misguided policies of economic growth that often lead to the rapid extraction and/or exportation of local resources. These phenomena also contribute to the impediment of economic and social development and particularly to the undermining of the health and well-being of mothers and children.

(5) With more than a billion people living in poverty and the continued degradation of the environment, there is a pressing need for an international effort to eradicate these phenomena by the end of the present century.

(6) World population is growing at unprecedented rates, with another billion people to be added to our planet over the next ten years. Ninety percent of that growth is taking place in the poorer nations of the Third World. At the same time, the rate of per capita consumption of the world's resources by the United States and by the North in general far exceeds rates in the South. Population policy and family planning services, as well as policies that direct Third World resources first and foremost to the satisfaction of Third World needs, particularly those of the poor majority, are integral parts of a sustainable development strategy. The need is to encourage rates of population growth and consumption worldwide that are consistent with the growth of economic resources and productivity and to ensure that the implications of these growth rates are integrated into all development policy considerations.

(7) The world now confronts, due to human activities, serious global environmental problems such as the threat of global warming of the atmosphere and the impending extinction of a large portion of all the animal and plant

species on earth. Sustainable development will be impossible in the long run if these problems are not addressed. Prompt actions to address these problems must include the provision of U.S. development assistance, U.S. cooperation in global and regional efforts both directly and through international institutions, and cooperative relationships with countries in the North and South.

(8) Energy conservation and energy production from renewable, decentralized sources have great potential for meeting energy needs, especially those of the rural poor. These techniques can enable developing countries to make efficient use of scarce resources, minimize environmental harm (including the warming of the earth's atmosphere), lessen the danger of nuclear weapons proliferation, and reduce dependence on dwindling oil reserves and expensive imported energy, while often meeting energy needs more cheaply and generating more employment than can be achieved by the production of energy from conventional sources.

(9) A common cause of past failures of assistance has been the inadequate fit of this assistance with development needs. There must be broad-based consultation and involvement in the development process in order to gain the benefit of local advice and participation in assisted projects and programs and in the shaping of development policies.

(10) To provide more responsive, effective development assistance to women, the landless, subsistence food producers, migrants, and the many others who make up the poor majority, United States Government aid institutions must learn from and build upon the capabilities and experience of non-governmental organizations active in

grassroots development efforts. There is a need for these institutions to consult closely with such non-governmental organizations and significantly factor their views into decisions on assistance, as well as to support the expansion and strengthening of their activities without compromising their private and independent nature.

(11) In the Third World, women play a pivotal role in achieving balanced economic growth, in reducing hunger and poverty, in increasing family well-being, and in finding sustainable solutions to the exploitation of natural resources. The expansion, therefore, of women's economic opportunities is essential to the alleviation of poverty and the development of effective, broad-based economic growth. The effective participation of women as agents, rather than beneficiaries, is key to promoting pluralism and achieving environmental sustainability.

(12) Basic literacy and numeracy are essential for enhancing participation in long-term development and for expanding effective and relevant technical education both inside and outside the formal education system. Investment in female education is particularly important, as the gap between female and male education is an obstacle to both increasing women's options and to fully mobilizing human resources for socio-economic development. Mounting evidence indicates that education and economic productivity correlate positively with lower fertility, later marriage, improved health for women and their families, and a dramatic decrease in infant mortality.

(13) United States Government support for the self-help efforts of the citizens of Third World countries can be effectively enhanced through an increase in activities

planned and carried out by private and voluntary organizations and cooperatives in conjunction with local populations and with indigenous non-profit, non-governmental organizations. Such organizations, embodying the spirit of self-help and assistance to others to improve their lives and incomes, constitute an important means of mobilizing private U.S. financial and human resources to benefit and empower poor people in Third World countries, and in so doing, to help build more pluralistic and open societies. Such organizations, through their work directly with the citizens of other nations, promote the well-being of the United States by building long-term relationships between citizens of the United States and citizens of other nations.

(14) The backbone of economic life in most Third World countries is the community-based, small-scale producer utilizing local resources to produce first and foremost to satisfy local needs. Small farms, small-scale agricultural processing endeavors, other small-scale manufacturing and service enterprises, cooperatives and other joint enterprise activities require adequate resources to enable them to serve the local population and to respond to external demand.

(15) United States development assistance should focus on critical development issues in the following interrelated sectors: natural resources (including energy), agriculture, the integration of natural and regional economies and the promotion of health, family planning, education and other aspects of human welfare. Of increasing concern is the degradation of the natural resource base due to over-grazing, over harvesting of trees, and overcropping on fragile soils and to large-scale inappropriate development projects (particularly in the area of irrigation), an

overemphasis on export agriculture and an inequitable pattern of landholding in much of the Third World, which have caused, to varying degrees, soil erosion, flooding, removal of tree cover, loss of water supplies, and desertification. Prompt action to maintain and restore the natural resource base is essential.

(16) Economic development that is less dependent on foreign assistance, food imports, and foreign markets requires a higher degree of economic self-reliance based on the integration of national and regional economies and on the development of resources by and for, to the extent feasible, the local population.

(17) In order for the United States Government to contribute to economic systems and development approaches that are equitable and sustainable, thereby furthering long-term U.S. national security interests, development assistance must be separated from security assistance (including both military assistance and economic support funds) and in all other ways be independent from short-term foreign policy exigencies and other non-developmental interests. Short-term strategic interests are in many respects fundamentally incompatible with the broad-based change that development assistance should underwrite. Development objectives will be facilitated by the shift of U.S. foreign aid resources from non-developmental assistance programs, the separation of the latter from development assistance programs, and the giving of precedence to development aid wherever feasible.

(18) The Third World debt crisis and economic adjustment measures are among the most significant barriers to equitable development in Third World countries. In 1988 Third World country debt payments exceeded their money

inflows by almost $43 billion, draining poor countries of resources essential for their people to meet their needs and to generate sustainable growth. Current economic adjustment measures have failed to promote economic growth and, along with pressures to repay debts, have led to increases in malnutrition, high levels of unemployment and underemployment, environmental degradation, political instability and a reversal of progress in basic aspects of human welfare such as education and health, including increases in infant mortality. It is in the interest of the United States to promote measures that offer debt relief to those governments, particularly those of the relatively least developed countries, that have not consistently used aid funds for purposes other than the improvement of the well-being of their citizens, as well as economic adjustment policies that encourage equitable and sustainable development.

Section 102. Policies

It shall be the policy of the United States in providing development assistance:

(1) to support development that is ecologically sound in that it maintains and restores the renewable resource base, does not impair critical ecosystems, wisely uses nonrenewable resources and does not exacerbate global environmental problems;

(2) to support the expansion of the participation of women, the landless, subsistence food producers, urban workers, the unemployed, indigenous populations, and others in the poor majority in the development of their societies through a process of equitable economic growth that enables them to increase their incomes and their access to

productive resources and services, to protect and advance their rights, and to influence decisions that affect their lives;

(A) Such growth should be:

(i) equitable, in that it enables the poor to increase their incomes and their access to productive resources and services so that they can satisfy their basic needs and lead lives of decency, dignity, and hope;

(ii) participatory, in that it enables the poor to contribute knowledge and other resources and to make and influence decisions that affect their lives;

(iii) environmentally sustainable, in that resources are managed and conserved, in a renewable fashion, primarily for local use by local populations so as to remove pressure on the natural resource base;

(iv) self-reliant, in that it is based on indigenous institutions, private and public, local and national, that have the capacity (including the human resources and finances) to carry out development policies and on the efficient use of local resources primarily for local and regional production and consumption.

(B) Assistance in this area should be designed:

(i) to help increase the food security, reduce food import bills, and improve nutritional levels by supporting food production for national and regional consumption;

(ii) to promote the diversification of production, the development of new products, and the integration of agricultural production with the development of industry;

(iii) to encourage Third World regional cooperation in the achievement of greater economic self-reliance, food self-sufficiency and international competitiveness, in the development of shared resources, and in the solution of their common problems;

(iv) to support those national programs of economic adjustment that promote the policies enumerated in this section and that maintain adequate levels of social services and economic support for poor populations in order to help ensure that the burdens created by adjustment are not borne by the poor;

(v) to avoid the displacement of traditional lines of small-scale production; and

(vi) to assist governments and non-governmental organizations in the formulation of population policies and programs that meet the self-defined need for long-range economic and social planning services.

(3) To promote economic, social and political pluralism by:

(A) consulting with the intended beneficiaries of United States economic assistance in the elaboration of development policies, programs and projects;

(B) providing assistance to indigenous regional, national and local governmental and non-governmental institutions that have the capacity or potential to carry out development programs effectively; and

(C) protecting and promoting human rights of all people regardless of sex, race, religion, ethnicity or occupation, including those of workers, women and indigenous peoples and including the right to organize and associate freely.

(4) To ensure that local women and their organizations are integral to, and active participants in, all aspects of development -- including the planning, design, implementation, management, monitoring and evaluation of these activities -- in approximate proportion to their traditional participation in such activities or commensurate with their proportion of the population, whichever is higher, by:

(A) promoting greater access by women, whether rural or urban, to productive resources and services, such as land, credit, training, technical assistance and markets, and the economic and legal means to obtain gainful and productive employment, thereby increasing their opportunities and effective contributions to economic growth;

(B) promoting investments and programs in health, education, family planning, and other human welfare services that respond to women's multiple productive and nurturing functions, that enable them choice and the means to control their reproductive lives, that enable them to improve their own well-being in a measurable way and that effectively increase their economic and social options;

(C) promoting the effective representation and leadership of women in government and the private sector and the strengthening of women's participation in decisionmaking at the policy and grassroots levels; and

(D) ensuring that the agency implementing this Act has in place a working mechanism to collect and use sex disaggregated data in the development of policies, strategies and programs in order to use U.S. resources efficiently and to assess the effectiveness of fully integrating women in all aspects of U.S. development assistance programs.

(5) To draw on the resources and experience of those private and voluntary organizations which have demonstrated effectiveness in, or commitment to, the promotion of grassroots activities on behalf of long-term development, as described in section 102, by:

(A) providing supplementary support to those organizations, without compromising their private and independent nature, for the purpose of -

(i) promoting development activities in accordance with the principles set forth in the Act, and

(ii) supporting the efforts of such organizations to improve their consultative, planning, management, evaluation and coordination mechanisms in order to enhance their effectiveness in promoting local-level development and broadening the national and regional impact of local activities; and

(B) consulting closely with those organizations in order to learn from and build upon their capabilities and experience in grassroots development and by significantly factoring their views into decisions on assistance.

For the purposes of this Act, the term "private and voluntary organization" includes (in addition to entities traditionally considered to be private and voluntary organizations) cooperatives, credit unions, and indigenous national and local organizations that are non-governmental and non-profit and that promote grassroots activities on behalf of long-term development.

(6) To explore with other countries, through all appropriate channels, the feasibility of a worldwide

cooperative effort to overcome poverty and environmental degradation and to assure sustainable, self-reliant, equitable growth in Third World countries by the year 2000.

Section 103. Consultation

In all stages of the design and implementation of assistance policies, programs, and projects the institutions executing this Act shall take into account the perspectives of the rural and urban poor through close and regular consultation with Third World organizations that work with the poor and that have demonstrated effectiveness in or commitment to the promotion of local, grassroots activities on behalf of long-term development, as described in section 102. Particular attention shall be paid to the active participation of women in determining development policy and in project and program identification, design, management, implementation, and evaluation. The executing institutions shall reflect the results of such consultation in their annual planning documents and shall utilize the information and perspectives gained from such consultation in the development of their policies and annual plans.

Section 104. Protection and Promotion of Peoples' Rights and Human Health

(1) Peoples' Rights. - Assistance may not be provided under this Act to any government that systematically violates or that does not take steps to protect and promote:

(A) internationally recognized human rights (as defined in the Universal Declaration of Human Rights);

(B) internationally recognized workers' rights (as defined in section 502(a)(4) of the Trade Act of 1974); and

(C) the rights of women, indigenous peoples and other distinct population groups, and the rights of all people to organize and associate freely.

(2) Public Health. - Assistance may not be provided, directly or indirectly, under this Act, for the use of any chemical or other substance in a country if:

(A) that use is not permitted under laws of that country relating to the protection of public health, or

(B) that use would not be permitted in the United States under laws of the United States relating to the protection of public health.

(3) Petitions. - For purposes of assisting in the implementation of this section, any person may submit a petition to the chief executive officer of the agency implementing this Act, presenting evidence that a government receiving U.S. development assistance has not promoted, protected or respected the internationally recognized rights of its citizens and/or knowingly used or allowed to be used substances that are harmful to the health of their citizens that are banned in their use by the laws of that country or by those of the United States. The agency shall take appropriate action to investigate the issues raised in the petition, make a determination with respect to the petition, and terminate assistance to the government in question if it is found to have contravened the standards delineated in this section.

Section 105. Priority Areas of Assistance

Assistance under this section shall be provided only with respect to the following critical sectoral priorities for long-term development as described in section 102:

(1) Protection and Enhancement of the Natural Resource Base and Energy for Development -

(A) Environment and Natural Resources - promoting those agricultural and industrial methods suited to local environmental, resources, and climatic conditions, and supporting actions designed to help nations protect and manage their environments and sustain and enhance their renewable natural resource base through:

(i) primary emphasis on small-scale, affordable, resource conserving, low-risk local projects, using appropriate technologies (including traditional agricultural methods) suited to local environmental, resource, and climatic conditions, and featuring close consultation with and involvement of local people at all stages of project design and implementation, with emphasis given to grants for local-level government organizations and for non-governmental organizations; and

(ii) special efforts to maintain and, where possible, restore the land, vegetation, water, wildlife, critical ecosystems (such as tropical forests, wetlands, and coastal marine resources) and other resources essential to economic growth and human well-being, to prevent pollution that threatens human health or important biotic systems, and to achieve patterns of energy use that meet human needs and are environmentally sustainable.

(Re-enact Section 117 of the Foreign Assistance Act of 1961)

(B) Sustainable Energy Use and the Prevention of Global Warming - promoting cooperative programs with Third World countries in energy production and conservation:

(i) through research on, and the development and use of, small-scale, decentralized, renewable energy sources for rural areas carried out as integral parts of rural development efforts;

(ii) that are directed toward the earliest practicable development and use of energy technologies that are environmentally acceptable, require minimum capital investment, are most acceptable to and affordable by the people using them, are simple and inexpensive to use and maintain, and are transferable from one region of the world to another;

(iii) that are aimed at energy conservation and assistance for transmission facilities to increase the availability of energy in rural areas;

(iv) that are aimed at cost-effective improvements in end use energy efficiency, load management, improvement of distribution and transmission grid operating efficiencies, and increased reliance on environmentally sound renewable energy sources; and

(v) through work with each recipient country, in cooperation with the government and the public in that country and interested members of the public in the United States, to develop a least-cost energy plan for that country, to implement the provisions of that plan to the maximum extent feasible and, when applicable, to assist the recipient country in updating its plan every two years, including a comprehensive analysis of progress in meeting the plan's targets. No assistance shall be furnished under this Act for the large-scale production of energy from fossil fuels.

(C) Conservation of Biological Diversity - The United States shall assist Third World countries in protecting and maintaining wildlife habitats and in developing sound wildlife management and plant conservation programs.

(i) Special efforts should be made to establish and maintain wildlife sanctuaries, reserves and parks; to enact and enforce anti-poaching measures; and to identify, study and catalog animal and plant species, especially in tropical environments.

(ii) To the fullest extent possible, projects supported under this subsection shall include close consultation with and involvement of local people at all stages of design and implementation and shall be managed by appropriate indigenous or -- where indigenous institutions do not exist or lack the necessary capacity -- international non-governmental organizations active in the region or country where the project is located.

(D) Protected Species and Ecosystems -

(i) The United States shall support and cooperate with other bilateral and multilateral foreign assistance donors and other appropriate government, intergovernmental, and non-governmental institutions in efforts to identify, establish, and maintain a representative network of critical protected ecosystems including but not limited to tropical forests, wetlands and coastal marine resources, on a worldwide basis.

(ii) The United States shall, to the extent feasible, provide assistance under this section to enable countries to fulfill their obligations under the CITES Convention, the Ramsar Convention or the World Heritage Convention.

(2) Sustainable Agriculture and Forestry -

(A) Sustainable Agricultural Development -

(i) Support shall be provided for increasing agricultural production in ways which protect and restore the natural resource base, especially food production, through agricultural policy changes at the macro-economic and sector levels, agricultural research (including participatory research, in which small farmers are directly involved in the definition of research agendas and the formulation of problems in order to capitalize on local knowledge and experience and enhance support for research efforts) and extension, development, and promotion of agriculture marketing activities, credit facilities, and appropriate production packages, land reform and the construction and improvement of needed production-related infrastructure such as farm-to-market roads and small-scale irrigation. Emphasis shall be given to promoting increased equity in rural income distribution, recognizing the role of small farmers (particularly women) and the farm family. In view of the central role of women in many regions' food systems, gender roles shall be analyzed and taken into account in order to ensure the integration of women into development activities.

(ii) Primary emphasis shall be given to the promotion and implementation of small-scale, affordable, resource-conserving and easily reproducible projects using regenerative and other low-cost, low-input methods (including traditional agricultural methods) suited to local environmental and socio-economic conditions. Such projects shall feature close consultation with and the involvement of local people at all stages of project design and implementation, with full cognizance given to gender roles in agricultural production in order to ensure the full integration of women into development activities. Strong support shall be provided wherever feasible for the efforts of local-level government and non-governmental organizations.

(iii) Significant support shall be provided for programs and projects in a number of countries aimed at the earliest practicable development and wide application of methods and approaches of the kinds described in subsection (ii) and for the strengthening of the capacities of countries to provide effective research, extension and other services in support of environmentally sustainable increases in food production.

(iv) The United States shall press recipient countries to reform policies that adversely affect farmers' and pastoralists' use of land and their choice of technology, and to eliminate incentives that lead to forest destruction, growing inappropriate crops on vulnerable lands, or that otherwise lead to unsustainable agricultural development. Those policy reforms needed to best meet the objectives of subsections (i), (ii) and (iii) shall be encouraged.

(B) Tropical Forests and Forestry Management -

(Re-enact Section 118 of the Foreign Assistance Act of 1961)

(3) Promotion of Human Welfare -

(A) Health - Improving health conditions in order to improve the quality of life of the people and their ability to contribute to sustainable social and economic development and growth, with special emphasis on building the capacity and knowledge of local people to manage their own health care and on helping to meet the health needs of mothers, infants, children and other high-risk populations through self-sustaining community-based primary health-care and disease-prevention programs that include-

(i) the promotion and implementation of activities that deal with the special health needs of infants, children and mothers. Such activities should utilize simple, available technologies which can significantly reduce childhood and maternal malnutrition, mortality and morbidity, such as immunization, oral rehydration, safe water, and programs in nutrition, sanitation, and child spacing. Priority should be on strengthening the capacity and infrastructure of local communities for ensuring the health of children, emphasizing the critical role of women as the caretakers of family health, and targeting those countries with the highest infant mortality rates;

(ii) the promotion and support of programs that focus on the special health needs of women, dramatically improving their ability to safely bear and raise healthy children, and of girls, particularly in nutrition, anemia, and reproductive education.

Recognizing that female health is so often dependent on social status, it is critical that women have access to education that can be key to increasing such status and hence greater control over their own health. Support should be provided in this regard to women's organizations that respond to and promote an understanding of the special health needs of women;

(iii) the promotion of programs that focus on disease prevention and control, particularly in the critical areas of AIDS and malaria; and

(iv) promotion of programs that enhance the training, skills and status of community-based health workers, many of whom are women, who work at the local level to build community involvement and self-reliant systems for local health management.

(B) Population and Voluntary Family Planning Services - Assisting governments and local organizations in the design and implementation of population strategies that serve local needs for services, including the provision of increased access to voluntary family planning services and the encouragement of private, community and other local initiatives, in order to allow couples to space the births of their children as they desire, thus contributing to:

(i) improved health for mothers and children;

(ii) the involvement of women in the design and delivery of family planning services;

(iii) increased education of men about responsible parenthood;

(iv) a greater role for women in their societies and economies; and

(v) reduced pressure on natural resources.

(C) Education - Improving the relevance to production and the efficiency of education, with substantial attention given to improving basic literacy and numeracy, especially to those outside the formal educational system, and improving primary education.

(4) Integration of National and Regional Economies-

(A) Integrated Rural Development - Supporting integrated rural development efforts designed to increase farm employment opportunities and enhance the quality of rural life, including programs of agrarian reform that distribute land and provide necessary assistance to small producers and cooperatives.

(B) Community-Based Agro-Industries - Supporting small-and medium-scale, locally owned cooperative and community-based agro-industries engaged in the processing of indigenous resources for local consumption and for export, including the provision of support for -

(i) the establishment of marketing networks to facilitate intraregional trade in food through programs that incorporate or serve small producers and that make marketing services more accessible to such industries;

(ii) the development and introduction of production technology appropriate for such industries;

(iii) programs that ensure the availability of credit to such industries; and

(iv) the provision of the necessary training for the management and production personnel required by such industries.

(C) Financial Resources for Small- and Medium-Sized Farm and Manufacturing Enterprises. - Providing financial resources to small- and medium-sized farm and manufacturing enterprises, as well as microenterprises, through-

(i) the creation and capitalization of appropriate financial mechanisms, including preferential credit facilities (commonly referred to as "soft-loan windows") in regional and national development banks; and

(ii) measures to encourage indigenous commercial banks and credit unions to provide risk capital to such enterprises.

(D) Upgrading Technical and Managerial Skills-Supporting efforts of countries to upgrade the technical and managerial skills of their people, through-

(i) the increased utilization of local personnel, knowledge, and expertise in all development-related activities;

(ii) support, including scholarships, for training in appropriate technical fields, including administration, finance, marketing, science, technology, and environmental protection;

(iii) assistance in the identification, evaluation, selection, and development of appropriate technologies that promote small- and medium-scale agroindustries and food production, and training in the use of such technologies;

(iv) assistance for product identification, research, development, promotion, and marketing; and

(v) support for increasing the capacity of indigenous institutions, including universities, technical institutes, and trade schools, to provide training in such fields.

(E) Regional Integration. - Supporting regional integration and institutions, in those regions where they exist or are desired, including seeking the cooperation of other donor nations in promoting regional development and including support for-

(i) efforts to regionalize and coordinate activities, to prevent the proliferation and duplication of regional bureaucracies, and to promote complementarity of regional efforts;

(ii) the efforts of regional and other governmental and non-governmental regional institutions to strengthen the regional infrastructure necessary to promote commercial activity and economic and social development;

(iii) regional research institutes that perform research that would contribute to the region's development (as described in this section); and

(iv) intra-regional transportation and communication links, roads, and port facilities.

(5) Assistance for Certain Critical Sectors - Of the funds authorized for appropriation by the President, there shall be a significant increase in the percentage of development assistance funds allocated to the following critical sectors relative to the levels of funds expended in FY 1988 -

(A) Natural Resources and Energy;

(B) Sustainable Agriculture and Forestry; and

(C) Health, Population and Family Planning.

The President is urged to reach beyond these levels where appropriate, based on requests from developing country institutions and/or in consultation with local groups. In the implementation of subsections (A), (B) and (C), special attention shall be given, consistent with section 102, to recognizing and expanding the efforts and roles of women and of non-governmental organizations, addressing the causes and conditions of poverty, supporting appropriate education and training, and consulting local populations.

Section 106. Debt Reduction and Equitable Development

Congress strongly urges the President to reduce the debt burden of the least developed countries. The President may waive payments of interest and principal on loans incurred by those governments of the relatively least developed countries that have not consistently used funds made available under the Foreign Assistance Act of 1961 for purposes other than the improvement of the well-being of their citizens. The President may also permit those governments to repay in local currencies to the United States amounts that would otherwise be paid in dollars as repayment of any principal or interest on loans made under sections of the Foreign Assistance Act of 1961 (or predecessor legislation) which may be due in the current fiscal year or subsequent fiscal year.

(1) The United States shall:

(A) Place funds so repaid in each country in local currency accounts to be used and managed by indigenous non-governmental organizations, selected in consultation with U.S. private and voluntary organizations supporting grassroots development in that country, for local development projects consistent with the purposes delineated in sections 102 and 104 of this Act; and

(B) Prohibit the use of development assistance to finance debt reduction measures.

(2) The agency charged with implementing this Act shall, in consultation with governments and non-governmental organizations representing affected populations, redesign

economic adjustment policies to promote equitable, environmentally sustainable and self-reliant development as outlined in section 102.

Section 107. United States Development Cooperation Administration

(1) ESTABLISHMENT.- There shall be established as an independent agency of the executive branch of the United States Government the Development Cooperation Administration (DCA), which shall serve as the principal vehicle for the provision of U.S. bilateral support for the development efforts of Third World countries and people.

(2) PURPOSE.- It shall be the purpose of the DCA to pursue the policies delineated in section 102 and to provide assistance in those priority areas delineated in section 104. The DCA shall comply with its mandate in accordance with the other sections of this Act and shall build upon the work, funding, learning and local-level relationships of the regional development foundations and private and voluntary organizations. The DCA shall not receive or utilize Economic Support Funds or other funds authorized and appropriated as security supporting assistance, which shall be managed and applied separately by the State Department for non-developmental purposes. Local currencies generated through the sale of those funds may be utilized independently by the DCA for the purposes designated in this Act.

(3) GOVERNANCE - The President shall appoint, with the advice and consent of the Senate, a Director of the DCA, who shall be responsible for the day-to-day operations of the Administration.

(a) The Director shall have experience in the Third World in socio-economic development and shall employ a staff with extensive such experience.

(b) the Director may promulgate such rules and regulations as he or she may deem necessary or appropriate to carry out those functions vested in the Director by this Act and may delegate to any subordinate authority to perform any of such functions.

(c) The President shall prescribe appropriate procedures to ensure coordination of DCA activities with other activities of the United States Government in each country. However, the aid mission director in each country shall recommend independently to the DCA Director the appropriate levels of aid to be allocated and the nature and destination of that aid.

(4) STRUCTURE.- The headquarters of the DCA shall be in Washington and shall have the minimal core staff required for policy-related purposes and for the provision of support to field staff. The majority of staff shall be deployed for periods of at least five years to subregional, country and provincial offices, which shall be directed by officers with extensive experience in socio-economic development. Program planning and the preparation of program planning documents in each region and country shall incorporate, in a regular and structured manner, the involvement of representatives of popular organizations in that region and country that in turn incorporate and represent the intended beneficiaries of the aid program, as delineated in this Act.

(5) PROGRAM AID.- The DCA shall provide program assistance on a multi-year basis to those governments and agencies thereof that have exhibited a commitment to a form of development that directly benefits the poor, that narrows the wealth and income gaps between them and the more well-to-do portions of the population, that protects and promotes their right to organize to achieve these objectives, and

that have exhibited a capacity to promote these ends. These recipients shall be designated "program" countries. This status shall be denied those countries the governments of which Congress determines to be consistent human-rights violators.

(6) PROJECT AID.- Those countries not designated as "program" countries shall receive development aid on a project-by-project basis. The DCA shall select the most capable institutions, in terms of their relative experience in participatory development and their relative capacity to manage funds, from among all public and non-governmental organizations to design and implement development projects consistent with the guidelines provided by this Act. Project aid may also be provided to appropriate institutions in "program" countries.

(7) PROCUREMENT AND CONTRACTING.- Preference shall be given in the use of aid monies to the purchase of appropriate goods and services in the aid-receiving country and from other Third World countries so as to make available project inputs consistent with local needs, capabilities and modes of development. Preference shall also be given to the contracting of local consultants and other Third World firms and individuals so as to more consistently tap relevant expertise.

Section 108. Center for Private and Voluntary Cooperation

(1) The President shall establish within the agency primarily responsible for administering this Act a permanent referred to as the "Center") consisting of nine board members selected in the following manner: three from the United States Government, including the head of the agency

responsible for administering this Act, three selected from private and voluntary organizations registered with the agency primarily responsible for administering this Act, and three from other non-governmental organizations that are knowledgeable about and extensively experienced in Third World socio-economic development and that do not receive financial support from the United States Government. Each private board member must have no less than five years experience working directly with programs of human resource development in Third World nations. A Chair shall be elected from among the members of the board.

(2) The Center shall appoint an Executive Director, without regard to the provisions of title 5, United States Code, governing appointments in the competitive service, who shall be compensated at no higher than that rate provided for a GS-18 of the General Schedule of such title. Appropriate staff for the Center shall be assigned by the agency primarily responsible for administering this part from members of the foreign service and civil service and shall be provided within authorized personnel ceilings of that agency.

(3) The Center's duties shall include, but not be limited to:

(A) developing basic policies, procedures, and criteria for programs and projects in support of and through private and voluntary organizations, including consultation prior to the adoption of such policies, procedures, and criteria, and definitions of private and voluntary organizations and minimum qualifications for receiving government grants and other assistance.

(B) establishing the criteria and maintaining a central register of private and voluntary organizations. While registration requirements shall be as uniform as possible, flexibility may be utilized in establishing registration criteria for indigenous private organizations, which allow for the different legal systems, procedures, and circumstances of their countries' governments. If registration proves a disincentive for the participation of indigenous private organizations in certain circumstances or countries, the Center may waive this requirement in such cases.

(C) encouraging fuller cooperation with indigenous nonprofit, non-governmental organizations in the implementation of United States development assistance programs. Such greater cooperation with indigenous non-governmental organizations shall include programs, implemented, where appropriate, through United States private and voluntary organizations for institutional strengthening, including management skills, and project identification, design, implementation, and evaluation.

(D) providing institutional strengthening grants, matching grants, and other central support for private and voluntary organizations, cooperatives, and credit unions. Such grants shall include, but not be limited to:

(i) grants whose purpose it is to allow private and voluntary organizations, in conjunction with local populations and, wherever the institutional capacity exists, with indigenous non-governmental organizations, to design, plan, and implement development assistance projects in accordance with the objectives set out by this Act.

(ii) grants whose purpose it is to allow private and voluntary organizations to serve as conduits for the expression of local perspectives in the design, planning, and implementation of development projects, programs, and policies and programs by the agency primarily responsible for carrying out this Act.

(iii) grants whose purpose it is to strengthen the project identification, design, planning, management, implementation, and evaluation skills of private and voluntary organizations, including those of indigenous nonprofit, non-governmental organizations.

(E) directing programs of development education to the American public concerning the causes and effects of hunger and poverty in the Third World. In this regard, the Center shall coordinate these programs with those of other United States departments and agencies, including the USIA, the Peace Corps, and the Department of Education.

(F) setting simplified procedures and, where feasible, comprehensive grants in funding such private and voluntary organizations within the agency primarily responsible for the administration of this Act.

(G) initiating studies, analyses, and programs for assessing the effectiveness and impact of such private organizations.

(4) Prohibitions on assistance to countries, or the governments of countries, contained in this or any other Act shall not be construed to prohibit assistance under this Act in support of programs of non-governmental organizations (including private and voluntary organizations). The provisions of this subsection shall not be superseded except by a provision of law enacted after the date of enactment of

this Act which specifically waives the provisions of the subsection. The provision of this subsection shall be applicable to any such prohibition in effect on the date of enactment of this Act.

Section 109. Regional Foundations (Re-enact Section (401) of the Foreign Assistance Act of 1969 and Title V of the Foreign Assistance Act of 1961 on the Inter-American Foundation and African Development Foundation, respectively)

Section 110. Peace Corps

Section 111. Food for Peace

Section 112. International Disaster Assistance

Section 113. Contributions to International Organizations and MDBs

Section 114. OPIC

Section 115. Housing Guarantees

Section 116. Accountability

The institution(s) executing this Act shall be held accountable to the mandate put forth by this Act through appropriate monitoring, evaluation and reporting procedures.

(1) Monitoring - The executing institution(s) in conjunction with the Office of Technology Assessment, shall monitor socioeconomic conditions in the Third World and the effect of United States development assistance programs and policies on those conditions, and particularly on the region's most vulnerable groups. The monitoring of particular projects and programs shall be carried out on an ongoing basis, while the assessment of national programs shall be effected every three years. The institutions shall involve in equal parts Third World governments and those non-governmental organizations that work at the grassroots level, in such monitoring.

(2) Evaluation - Not later than 3 years after the date of enactment of this Act, the Office of Technology Assessment:

(A) shall conduct an evaluation of the performance of the executing institution(s) in carrying out this Act and assess the progress made toward the achievement of the objectives outline therein; and

(B) shall report the result of that evaluation to the Congress.

(3) Reports to Congress. -

(A) The chief executive officer of the executing institution shall report annually to the Congress on:

(i) the effectiveness of the programs conducted under this Act in furthering the policies set forth in section 102;

(ii) the specific programs undertaken to carry out Section 104 the amounts expended on each program, and the specific results of each such program;

(iii) the nature and results of consultations under Section 103, and the impact of such consultations on the programs undertaken to carry out this Act; and

(iv) the results of the monitoring under subsection (1).

(B) All data submitted to Congress shall be disaggregated by gender.

(C) The reports required by this subsection shall be submitted as a discrete section of the annual congressional presentation materials on development assistance.

(D) The required reports shall be submitted to Committees on Development Cooperation Oversight in the House and Senate, compromising Members and field-experienced staff from the committees on foreign affairs/relations, appropriations, agriculture, the environment and natural resources, budget and other related committees including the Select Committee on Hunger.

(4) Specific Goals - Development is a process of self-determined change dependent upon the growth of the capabilities of the local population and of their organizations. As such, it is difficult to measure. There are, however, clearly definable goals that are indicators of progress and to the achievement of which development assistance can contribute. In implementing this section, emphasis shall be placed on monitoring, in each country in which the United States provides development assistance, the progress made toward the achievement of the following goals and the contributions made to this progress by U.S. development assistance under this Act:

(A) Substantially decreased levels of poverty and increased social and economic equity;

(B) Increased citizen participation in decisionmaking;

(C) The free-functioning of citizens' organizations, including those of the poor;

(D) Enhanced environmental sustainability;

(E) Improved protection of the natural resource base, including tropical forests;

(F) Improved energy conservation and increased energy production from renewable and decentralized sources;

(G) Increased integration of national and regional economies;

(H) Increased economic self-reliance, particularly in food production;

(I) Decreased dependence on foreign assistance, food imports and foreign markets;

(J) The reduction of population growth rates where they exceed the growth of economic resources and productivity;

(K) The reduction of the threat of global warming;

(L) The increased development capacity of popular organizations and other non-governmental organizations;

(M) Greater involvement of women and their grassroots organizations in the planning and implementation of development policies, programs and projects;

(N) Improved access for women to productive and reproductive services and resources and to economic opportunities;

(O) Universal primary education and improved female literacy;

(P) Substantial reduction in the mortality rates of children under five years of age;

(Q) The increased availability of resources for community-based, small-scale producers and cooperatives;

(R) A reduction in the debt burden and the implementation of economic measures to help reduce that burden without negatively affecting the poor; and

(S) Other goals, as determined by the head of the agency principally charged with implementing this Act and consistent with sections 102 and 105.

(5) Presidential Plan - The President shall develop a plan to ensure that U.S. development assistance contributes to the achievement of the goals specified in subsection (4). The plan shall:

(A) be developed through consultation with indigenous non-governmental organizations that represent the poor, as well as with host-country governments, international organizations, and U.S. non-governmental organizations;

(B) be submitted to Congress not later than July 1, 1990, or six months after the date of enactment of this section, whichever is later; and

(C) constitute the basis of an international agreement that the President is encouraged to seek through the hosting of an international development conference of heads of government of recipient and donor countries and representatives of non-governmental organizations of those countries that work directly with the poor.

(6) Citizens Advisory Committee on Development Cooperation - The chief executive officer of the U.S. bilateral development assistance agency shall establish within the agency a Citizens Advisory Committee on Development Cooperation.

(A) It shall be the purpose of the Committee to:

(i) monitor the implementation of this Act; and

(ii) suggest actions, where required, to assure adherence to its mandate.

(B) The members of the Committee shall be chosen from among leaders of United States non-governmental organizations representing citizen interest in the objectives identified in this Act and with direct links and experience with Third World non-governmental organizations representing the poor majority. They shall serve four-year, staggered terms and be reappointable once. The membership shall be determined in the following manner:

(i) five members by the head of the development assistance agency;

(ii) three members by the Development Cooperation Oversight Committee of the House of Representatives;

(iii) three members by the counterpart committee in the Senate; and

(iv) six, including a Committee Chair, by the eleven members so appointed.

(C) The Committee shall:

(i) have full access to the staff and all the information and materials of the agency;

(ii) be allocated a core administrative staff and a budget for limited travel (and related, modest per diem) by its members to Third World countries, the engaging of Third World consultants, the travel of Third World consultants and development participants to the United States and for the covering of the costs of reporting;

(iii) rely primarily on Third World consultants with extensive grassroots experience in carrying out its responsibilities under this subsection; and

(iv) annually prepare, publish and disseminate a report on its findings and recommendations for review and consideration by the institutions implementing this Act, Congress, the U.S. aid community and the U.S. public in general.

TITLE I. Africa Famine Recovery and Development Program (portions not already delineated in this legislation)

TITLE II. Caribbean Regional Development Program (portions not already delineated in this legislation

TITLES III. - Other regional programs

Mr. **Hellinger**. We and other development, church and environmental organizations have put so much effort into this undertaking because of the crises currently facing the Third World and the aid community. The Third World crises have three major dimensions: a $1.2 trillion debt; more intense and pervasive poverty and suffering than has been experienced in a generation; and increasing environmental degradation that is threatening the capacity to sustain economic growth and development.

This crisis is partly the result of the adoption over the past two generations of development models promoted by northern aid agencies. They have overemphasized production for export and have thus left Third World economies highly vulnerable to changes in international prices and markets. Across the Third World, countries have sacrificed the capacity to feed their populations, faced ballooning import bills, and find it increasingly difficult to penetrate northern markets or to secure adequate prices for their exports.

Nonetheless, the international aid community has responded to this situation by promoting structural adjustment policies geared to further opening southern economies and expanding their export production. In light of conditions in international markets, the adoption of such prescriptions constitutes economic suicide.

In the meantime, these policies are rapidly eroding the capacity of Third World countries to generate self-sustaining development. The natural resource base is being abused, and poor populations are effectively being denied essential services. A whole generation of potentially healthy and productive people are falling into survival modes. Many small producers unable to gain access to credit and related services find themselves forced to move into drug production.

The situation is grim, and people are very angry. Riots such as those recently in Venezuela are only the tip of the iceberg. This anger, desperation, and alienation are also manifested in pervasive crime, domestic violence, drug use, and a range of street protests. They are generating an instability across the south that will yield political upheavals and repression in the years ahead unless we make a sharp turn and begin supporting a different kind of development.

For nearly two generations, we in the north have prescribed what is best for the people in the south. Now a new phenomenon is emerging in the Third World. From among the deepening despair, significant social movements are developing. Citizen groups that have worked for years in grassroots development are translating local level development experience into macropolicy alternatives and engaging increasingly in national and international policy deliberations.

They have already played a key role with congressional subcommittees in reshaping policy toward the Caribbean and stimulating a reassessment of structural adjustment policies in Africa.

By the way, the Caribbean initiative has taken the form of the Caribbean Regional Development Act, which will be part of this year's House foreign aid bill, and we encourage the committee here to adopt a similar measure, as well as the Africa bill coming out of the House.

Virtually every piece of development-related legislation taken up in the House in the past 2 or 3 years has had as an essential element the requirement that local populations be consulted in the shaping of development policies and programs. This is very consistent with what Mr. McCall is saying.

We urge that this committee also build into its mandate to our bilateral and the multilateral aid agencies that they systematically consult with the Third World poor through their own organizations.

The initiative taken by the House Foreign Affairs Committee has been welcomed by the nongovernmental community not only because of its timeliness but also because of the major contribution it has made in stimulating a significant debate in our field and a fundamental reevaluation of our aid program.

At the same time, however, our NGO coalition has some fundamental problems with the Foreign Affairs Committee's proposals that have thus far made it impossible for us to support them in their entirety, as expressed in our letter to Representative Fascell.

First and foremost, we do not support the removal of functional accounts and other constraints on AID's programmatic latitude unless other effective mechanisms of accountability are established. We simply do not have the faith that the House committee appears to have in this or any administration to follow the broad policy guidelines that Congress legislates.

Second, we are troubled by the relatively little attention given by the House committee to environmental concerns or to their integration with the stated objectives of poverty alleviation, economic growth, and democratic pluralism. Any policies that enable AID to address these objectives individually will not gain our support.

Third, the House bill lacks the mechanisms to ensure that development concerns will be separated and insulated from short-term foreign policy objectives. Development assistance should to the maximum extent possible be separated operationally, institutionally, and legislatively from security-supporting and military assistance.

Ultimately we and many of our colleague organizations would like to see the creation of an independent bilateral development assistance institution.

It is time in our view to start saying "No" to the many special interests attendant to our aid legislation. Poll after poll shows that, while the U.S. public supports foreign aid in principle, it opposes it in practice because it feels, quite correctly, that most of the aid does not reach the poor and that much of it remains with interests in this country.

There is a large and growing community of U.S. organizations that support this view, that has a broad constituency and membership and that has shown its willingness to work with Congress to shape an aid policy and program that are responsive first and foremost to the common people of the Third World.

We are asking that Congress chart a different course for our aid agencies, one that will enable them to help Third World countries to make a transition to a different type of economy. If the Third World is not always to be dependent on our aid, we will have to help them to become more, not less, self-reliant.

We need to pay less attention to how much money we have for aid and more to where it goes and how it is provided. Large public and private sector institutions have proven all too often to be inappropriate and ineffective conduits for our aid. It is clear that we could do far more with less aid if we reserved it for local governmental and nongovernmental organizations and for those national and regional level agencies that have a proven track record of working with and benefiting the poor.

As this committee moves forward in dealing with the U.S. role vis-a-vis Third World development, The Development GAP and our colleagues in the NGO community would welcome the opportunity afforded us by the House Foreign Affairs Committee to contribute to the shaping of a more effective aid policy and program.

[The prepared statement of Mr. Hellinger follows:]

STATEMENT OF STEPHEN HELLINGER

Mr. Chairman, thank you for the opportunity to address the Committee on the future of foreign aid. This issue has been a focus of The Development GAP for the past dozen years. During that time, we have worked in some 30 countries with the World Bank, AID and smaller aid institutions and with Third World public, non-governmental and grassroots organizations. We have also worked extensively with Congress in translating this experience into policies relevant to Third World realities.

This testimony also reflects to a large extent the views of a coalition of some 30 U.S. non-governmental organizations (NGOs) which have come together over the past few months to respond to the initiative taken by the House Foreign Affairs Committee to reform the U.S. bilateral aid program. In this regard, I would like to submit for the record a letter that this coalition has written to the Committee Chair, Mr. Fascell, expressing our view of the Committee's undertaking, as well as a summary of a set of policy proposals that we have submitted to the Committee. You may also wish to enter in the record, Mr. Chairman, our complete policy document, the proposed "Development Cooperation Act of 1990." Our coalition has subsequently integrated this document with the bill recently drafted by the Foreign Affairs Committee.

We and other development, church and environmental organizations have put so much effort into this undertaking because of the crises currently facing the Third World and the aid community. The Third World crisis has three major dimensions: a $1.2 trillion debt; more intense and pervasive poverty and suffering than has been experienced in a generation; and increasing environmental degradation that is threatening the capacity to sustain economic growth and development.

This crisis is partly the result of the adoption over the past two generations of development models promoted by Northern aid agencies. Neither the conventional liberal nor conservative approach to development has been reflective of the needs and realities of the majority of Southern populations. Both have overemphasized production for export and have thus left Third World economies highly vulnerable to changes in international prices and markets. Across the Third World, countries have sacrificed the capacity to feed their populations, face ballooning import bills, and find it increasingly difficult to penetrate Northern markets or to secure adequate prices for their exports.

The international aid community has responded to this situation by promoting structural adjustment policies geared to further opening Southern economies and expanding their export production. In light of the disadvantages that Third World exporters already face in international markets, the prospects of a more closed European market after 1992 and few signs of a return of commodity prices to late 1970s levels, such prescriptions by the IMF, the World Bank, and bilateral aid institutions such as AID are prescriptions for economic suicide.

Not only have these policies failed to extricate the Third World and Northern banks from their debt woes, but they are rapidly eroding the capacity of Third World countries to generate self-sustaining development. Farm lands are abused in the effort to maximize the production of export crops. Poor subsistence farmers are pushed to marginal lands, which they are forced to abuse in an effort to survive. Rain forests are sacrificed to the interests of international lumber companies and cattle ranchers. Women and children and other poor and vulnerable groups, which had no role in creating the debt, are effectively being denied medical care, education, jobs or the transportation required to reach them, and a slew of other services. A whole generation of potentially healthy and productive people are falling into survival modes. Many small producers unable to gain access to credit and related services find themselves forced to move into drug production.

The situation is grim, and people are very angry. Riots, such as those recently in Venezuela, are only the tip of the iceberg. This anger, desperation and alienation are also manifested in pervasive crime, domestic violence, drug use, and a range of street protests. They are generating an instability across the South that will yield political upheavals and repression in the years ahead unless we make a sharp turn and begin supporting a different kind of development.

The answers lie mainly in the Third World. For nearly two generations we in the North have prescribed what is best for the people of the South. Our macroeconomists have shaped the models. Our policymakers and aid agencies have defined their needs. We have provided our consultants, technologies and products all too often at the expense of helping societies to build upon their local knowledge, experience and capabilities. We have built modern infrastructures in conjunction with national institutions that have little or no association with local populations instead of providing assistance to the development endeavors of these populations.

A new phenomenon is emerging in the Third World. From among the deepening despair, significant social movements are developing. Citizen groups that have worked for years in grassroots development have recognized that the negative repercussions of international policies are undermining and overwhelming their long-term efforts on the ground. As a consequence, they are translating local-level development experience into macro-policy alternatives and engaging increasingly in national and international policy deliberations. In conjunction with their Northern counterparts, these organizations have constructively engaged and thrown out challenges to the World Bank and other multilateral agencies. They have already played a key role with Congressional subcommittees in reshaping policy toward the Caribbean and stimulating a reassessment of structural adjustment policies in Africa.

Virtually every piece of development-related legislation taken up in the House in the past two or three years has had as a central element the requirement that local populations be consulted in the shaping of development policies and programs. We urge that this Committee also build into its mandate to our bilateral and the multilateral aid agencies that they systematically consult with the Third World poor through their own organizations, so that our aid policies are informed and our assistance efforts relevant to the people we say we are dedicated to helping. Furthermore, any legislation relating to U.S. PVOs should mandate a role for them in ensuring that AID hears the views of their Third World counterparts on matters of local and national importance.

In the meantime, the House Foreign Affairs Committee has taken an initiative to rewrite the 1961 Foreign Assistance Act.

This initiative has been welcomed by the non-governmental community not only because of its timeliness but also because of the major contribution it has made in stimulating a major debate in our field and a fundamental reevaluation of our aid program. As a by-product, it has stimulated a large number of U.S. NGOs with a wide range of foci to join in a common effort to contribute to the creation of an official aid program that can help foster forms of development that are equitable, participatory and sustainable. We are also supportive of the Committee's effort to return the Congress to an orderly process of authorization and appropriation on foreign aid and to remove many of the bureaucratic constraints to the efficient functioning of AID and to an effective interaction between AID and Congress.

At the same time, however, our NGO coalition has some fundamental problems with the Foreign Affairs Committee's proposals that have thus far made it impossible for us to support them in their entirety, as expressed in our letter to Rep. Fascell. First and foremost, we do not support the removal of functional accounts and other constraints on AID's programmatic latitude unless other, effective mechanisms of accountability are established. Better mechanisms of monitoring and oversight must also be established. We simply do not have the faith that the House Committee appears to have in this, or any, Administration to follow the broad policy guidelines that Congress legislates. We in the NGO community who are in close contact with local populations and environments cannot support legislation that gives greater operational latitude to an Administration with an agenda that is inconsistent with these local interests.

Second, we are troubled by the relatively little attention given by the House Committee to environmental concerns or to their integration with the stated objectives of poverty alleviation, economic growth and democratic pluralism. What has brought environment, development, church and human rights groups together is a common understanding of development as a process that integrates all these objectives. Any policies that enable AID to address these objectives individually will not gain our support.

Third, the House bill lacks the mechanisms to ensure that development concerns will be separated and insulated from short-term foreign policy objectives. In our view, development assistance should, to the maximum extent possible, be separated operationally, institutionally and legislatively from security-supporting and military assistance. Ultimately, we and many of our colleague organizations would like to see the creation of an independent bilateral development assistance institution that can concentrate on the job of helping to generate long-term, sustainable development in response to local realities and input rather than to outside influences.

Fourth, the House effort is still too oriented to U.S. and other Northern interests. Our aid legislation, with a few notable exceptions, has always been more geared to applying U.S. expertise to Third World problems than to building on the pervasive and much more relevant expertise that exists at all levels in the South, especially among the poor themselves. Nor do we think that our aid program should be used to assist the U.S. private sector or the more privileged members of the private sector in the Third World. If we are going to use our aid to promote free enterprise, it should be used to create an even playing field to help the small producer.

It is time, in our view, to start saying no to the many special interests attendant to our aid legislation. Poll after poll shows that, while the U.S. public supports foreign aid in principle, it opposes it in practice because it feels -- quite correctly -- that most of the aid does not reach the poor and that much of it remains with interests in this country. There is a large and growing community of organizations in this country that supports this view, that has a broad constituency and membership, and that has shown its willingness to work with Congress to shape an aid policy and program that is responsive first and foremost to the common people of the Third World.

We are asking that Congress chart a different course for our aid agencies, one that will enable them to help Third World countries to make a transition to a different type of economy. If The Third World is not always to be dependent on our aid, we will have to help them to become more, not less, self-reliant. We need to support their efforts to integrate their national and regional economies, rather than simply export commodities and assemble foreign parts. We have to help them develop the skills and structures needed to compete effectively before we insist that they be more fully integrated into the international marketplace.

The Inter-American and African Development Foundations and many Northern NGOs and PVOs have done a good job in helping to build the local organizational structures in the South needed as the base for constructive change. Congress must now ensure that AID and the multilateral agencies to which the United States contributes build upon this work instead of continuing to largely ignore it and thus often to undermine it. We need to pay less attention to how much money we have for aid and more to where it goes and how it is provided. Large public and private-sector institutions have proven all too often to be inappropriate and ineffective conduits for our aid. It is clear that we could do far more with less aid if we reserved it for local governmental and non-governmental organizations and to those national and regional-level agencies that have a proven track record of working with and benefiting the poor.

Most importantly, we must take a different posture in our bilateral (and multilateral) aid program. We have to build on what Third World people are doing for themselves, rather than imposing development models, policies and projects on them. For many decisionmakers in the aid world, letting go and leaving room for the intended beneficiaries of their assistance to define their development courses is a risky proposition. It provides no assurances that the routes chosen will be familiar or that they will lead in directions that appear compatible with short-term U.S. interests, however they may be defined.

Yet, from a national-interest perspective, this is the very strength of a foreign aid approach that is responsive to the needs and efforts of the people of the Third World. It represents to those populations a recognition on the part of the United States of their right and ability to determine their own future. This recognition is the basis for sustained economic and social stability and holds the promise of lasting relationships of mutual appreciation and respect. It is in the building of this stability and such relationships that true, long-term U.S. interests lie.

As your Committee moves forward in dealing with the U.S. role vis-a-vis Third World development, The Development GAP and our colleagues in the NGO community would welcome the opportunity afforded us by the House Foreign Affairs Committee to contribute to the shaping of a more effective aid policy and program.

Senator **Sanford**. Thank you very much. That was very good.

Senator Simon.

Senator **Simon**. If I could give you an assignment, Mr. Hellinger, I hear this, if I may read from your report. "We urge that the committee also build into its mandate to our bilateral and the multilateral aid agencies that they systematically consult with the Third World poor through their own organizations so that our aid policies are informed and our assistance efforts relevant to the people we say we are dedicated to helping."

Anytime you ask any embassy, any group, they all say we are doing precisely that.

Amnesty International gives a rundown country by country of political prisoners. It probably is not completely accurate, but it gives us a feel of who is sensitive on human rights and who is not.

What if you were to do the same thing on a country-by-country basis, to give a report card to the American Embassy in Mauritania, in Senegal; go down the list, do the same for the multilateral agencies? You make a report card 6 months from now, 9 months from now. You give it to me, and I will be happy to place it in the record. I may indicate I disagree with it or something else.

My instinct is the very fact that you say you are going to make a report card will make some of the embassies and agencies more sensitive.

Any reaction?

Mr. **Hellinger**. Sure. You say a report card on the effectiveness of our bilateral agency and the multilateral agencies to achieve the objectives that are delineated by Congress?

Senator **Simon**. What you say is that we are not listening to the people, that we ought to consult with the Third World poor.

Mr. **Hellinger**. Right.

Senator **Simon**. You can draw up that report card and make it as sophisticated as you want, but one of the issues ought to be is the United States Embassy in Botswana consulting with the Third World poor, and they get an A, B, C, D, E, or an F.

Mr. **Hellinger**. All right. We can do that. In fact, the Africa bill that was actually legislated in part by the House Appropriations Committee last year mandates consultation.

Senator **Simon**. I understand.

Mr. **Hellinger**. I think that we certainly could through our counterparts overseas. Many of us work with such organizations.

Senator **Simon**. I do not care how you put it together. You do it, and I think you will do much more than frankly just—I am all for adding the mandate, but I think we need some more concrete way of measuring whether people are responding or whether they are not.

Mr. **Hellinger**. May I add that last year our organization with Mr. Crockett and Mr. Fascell put together two consultations in the Caribbean. What I am saying is we can do more than what you are suggesting.

We and many other organizations are in a position to put together consultations with a wide range of sectors, from grassroots women's groups to heads of regional organizations, so that members of Congress can meet with them in symposia or informally. That has led to the Caribbean legislation, and I think the Africa bill is shooting for the same thing. We certainly could do both those things.

Senator **Simon**. I think that is fine. I am asking for something beyond that.

Mr. **Hellinger**. Well, we can do that.

Senator **Simon**. OK.

Thank you, Mr. Chairman.

Senator **Sanford**. Thank you, and thank you, Mr. Hellinger. We might come back to you and might give you some additional questions for your thoughts. We appreciate that comprehensive presentation.

Mr. Stoel, you have a very fine paper here covering virtually everything affecting the globe. It is very interesting, and I thank you for it.

I would like you to give us a summary of what you think principally Congress ought to be focusing on as we attempt this year to do something about the aid appropriations as well as any broader thoughts that you might have for what we ought to be thinking about in the future. I assure you that we value this play by play of so many important issues.

STATEMENT OF THOMAS STOEL, SENIOR STAFF ATTORNEY, NATURAL RESOURCES DEFENSE COUNCIL, WASHINGTON, DC

Mr. **Stoel**. Thank you, Mr. Chairman. It is a privilege to be here today.

Today I am testifying not only on behalf of the Natural Resources Defense Council but also four other major organizations: The National Wildlife Federation; the National Audubon Society; the Sierra Club; and Environmental Policy Institute. Together they have more than 6 million members.

As you mentioned, my written statement covers a number of issues. In my oral statement I am going to focus specifically on the need for a strong Foreign Assistance Act.

I agree with everything Mr. Hellinger said, so I am going to emphasize the need for U.S. bilateral assistance to do much more in the area of environmental protection and sustainable development.

We all know that the world faces unprecedented environmental problems. Among them are global warming of the atmosphere, loss of tropical forests and biological diversity, and soil erosion and loss of agricultural productivity on a wide scale.

What is becoming increasingly evident, and what was pointed out in part by the World Commission on Environment and Development, is that many of these problems have their focus in the Third World. Environmental degradation in these countries not only undermines the prospects for sustainable development within those nations but also threatens to exacerbate global problems such as warming of the atmosphere.

In light of this, one would think that the U.S. foreign assistance program would be moving ever more strongly to address these problems. Unfortunately, that is not the case. The congressional presentation and the budget put forward by the Bush administration contemplate business as usual in these areas. AID's presentation to the Congress for fiscal year 1990 does not even mention the problem of global warming.

There is no sign of any expansion of the various efforts that AID began earlier in this decade to deal with these problems. We believe, therefore, that what is needed is strong guidance and direction from the Congress.

Like Mr. Hellinger, we are disappointed in the approach taken by the House Foreign Affairs Committee. I will mention some of the defects of the House approach that we would like the Senate to avoid.

First, the House would actually repeal strong environmental provisions of the Foreign Assistance Act enacted in the last few years; namely, sections 117, 118, and 119. The House bill as it currently stands fails even to mention the problem of global warming of the atmosphere or to direct AID to undertake efforts for sustainable energy production.

Even more incredibly, the House bill scarcely mentions population assistance and family planning aid. In view of past efforts to gut this part of AID's program, a strong, specific mandate in this area is essential.

Most fundamentally, the House bill does not require specific minimum levels of effort in the crucial areas I have mentioned. Under their draft bill, AID could reduce its efforts in these key areas very substantially and still claim it was fulfilling the mandate of the Congress. In view of the report that Administrator Woods put out in February which scarcely mentions these problems, we are very much afraid that this is what AID would do. We believe that AID should be required to exert minimum levels of effort in these key areas.

Over the last few months, NRDC has been one of the groups that worked with Steve Hellinger and others to develop legislative proposals that would remedy these defects. We urge this committee to adopt those proposals. We know our 6 million members would strongly support a foreign assistance program of this kind, and we believe the American people as a whole would do so.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Stoel follows:]

STATEMENT OF THOMAS STOEL

I. Introduction and Overview

Mr. Chairman, I appreciate very much the opportunity to testify at this important hearing. I am Thomas B. Stoel, Jr., Director of the International Program of the Natural Resources Defense Council (NRDC) and Chair of Project Blueprint.

NRDC is one of the Nation's leading environmental organizations, with more than 100,000 members located in every state and many foreign countries. Project Blueprint is a major cooperative effort of the U.S. environmental community to recommend to the Bush Administration the actions needed to address the full range of national and international environmental problems. Some of us presented its conclusions to then President-Elect Bush last November.

Today I am also testifying on behalf of the *National Wildlife Federation, which has more than 5,100,000 members and supporters in its national organization and affiliates; the National Audubon Society, which has more than 500,000 members; the Sierra Club, which has more than 400,000 members; and the Environmental Policy Institute, Friends of the Earth, and Oceanic Society.

NRDC has been working for more than a decade to encourage progress on international environmental issues. In that time, Mr. Chairman, this Committee's attention to global resource conservation has been extremely valuable. However, much more remains to be done.

Because of the breadth of the Committee's jurisdiction, I will recommend actions to address a number of extremely important issues. They include:

- Depletion of the stratospheric ozone layer and global warming, the most serious environmental problems the world has ever faced, and the actions the United States must take to address them.
- Needed changes in the bilateral U.S. aid program, including actions to address the problem of global warming and prevent resource degradation in Africa, leadership in sustainable agriculture, a $10 million earmark for efforts to prevent the extinction of million of wildlife species, and continued U.S. leadership in the field of population and family planning assistance.
- Actions to improve the environmental performance of the multilateral development banks.
- Actions to reduce the debt burdens of developing nations.
- The necessity of a much larger U.S. contribution to the UN Environment Program, the only worldwide environmental agency and the only one capable of dealing with many crucial problems.
- Adequate funding for the Convention on International Trade in Endangered Species and the World Heritage Fund.

II. Global Warming

I want to begin by discussing the problem of global warming of the atmosphere, because this is an issue which requires immediate, worldwide action if we are to ensure the future habitability of our planet. Of all the issues addressed in the year-long Project Blueprint effort, I believe that global warming was felt to be the most important. We stated in the Project's Summary Report, and reiterated in our November 30 meeting with then President-Elect Bush:

> Despite growing scientific evidence that the greenhouse effect is real and pleas by leading scientists for governmental action, our Government until recently has insisted that the only need is for further research. Yet science has identified many of the steps that are needed to hold global warming within tolerable limits. We must begin to take those actions now or pay a terrible price for delay.

A. The Problem: Our Planet at Risk

There is an increasing scientific consensus that the earth is irrevocably committed to a rise in global temperature greater than any in recorded history. The National Academy of Sciences has estimated the potential increase in the next 50 to 100 years at between 2.7 and 8.1 degrees Fahrenheit. At the low end of this range, the increase would bring global average temperatures to a level not seen in 6000 years. At the high end, we would have to adjust, within less than a century, to average temperatures not seen since the Age of the Dinosaurs.

Among the certain consequences of global warming are sea level rise as oceans expand and polar ice melts; extraordinary changes in weather and rainfall patterns and distributions of forests and plant life; and disruptions in current agricultural patterns. The question is not whether these effects will occur, but how much and how fast.

The consequences are mind-boggling:

- A two-foot rise in sea level, within the range of current predictions, would destroy 80% of U.S. coastal wetlands, inundate 20% of the inhabited land of Egypt, force salt water into coastal drinking water systems, cause massive, sudden and -- given coastal storms -- violent changes in the economy and usability of shorelines worldwide. One-third of the world's people live in coastal areas.
- Reduced yields in the U.S. Midwestern Grain Belt and the world's other "breadbaskets." The U.S. Corn Belt would not simply move north. Differences in soil suitability and the availability of water suggest that the agricultural economy would fall seriously out of balance not only in North America but all over the world.
- Global average changes will mask more dramatic regional changes, especially at the middle and higher latitudes, where a 4.5 degree F global average increase might mean a 10 degree increase on a regional basis.

While the extent and consequences of global temperature rise are matters of scientific debate, the overall trend is not under serious challenge. Nor is the cause. A respected atmospheric scientist, Dr. Stephen Schneider of the National Center for

Atmospheric Research, has said: "The greenhouse theory is the least controversial theory in atmospheric science." Some scientists believe global warming has already begun. Average global temperatures in the 1980s are the highest measured in the 130 years since reliable records have been kept, and 1988 was the hottest of all.

The "greenhouse gases" that cause global warming include carbon dioxide, nitrous oxide, chlorofluorocarbons (CFCs), and methane. All are on the increase in the atmosphere as a result of human activities since the Industrial Revolution. Carbon dioxide and nitrous oxide are emitted by burning fossil fuels; CFCs are artificial compounds used as refrigerants, solvents, foam-blowing agents, and aerosol propellants; increases in methane emissions may be related to intensification of agricultural activities to meet the needs of growing populations.

Current emissions of these gases far exceed the ability of forests and oceans to absorb them. Every year, fossil-fuel combustion generates five billion tons of carbon emissions, and forest destruction is thought to contribute another billion tons of carbon to the atmosphere. Natural mechanisms remove less than half of these human-caused emissions. Atmospheric carbon concentrations have increased from their historical level of about 270 parts per million to about 345 parts per million.

Carbon dioxide now accounts for about half of the warming effect. Scientists tell us that deep cuts in worldwide CO_2 emissions -- cuts of 50% or more -- will be necessary to hold global warming within tolerable limits.

Atmospheric methane concentrations have more than doubled in the past 300 years, from 680 to 1650 parts per billion. Concentrations have increased by more than one percent per year in the past decade.

Despite a U.S. ban on their use as aerosol propellants since 1978, worldwide demand for CFCs is increasing rapidly. Since the CFCs of greatest concern remain in the atmosphere 75 to 110 years, a quick, worldwide phaseout of CFC use is essential.

B. The Need for Immediate Action

The discussion of global warming has tended to focus on the consequences of a doubling of atmospheric carbon dioxide from levels of a century ago to 550 to 600 parts per million, the level expected sometime before the middle of the next century at current growth rates. But in fact we probably have begun already a long-term, indefinite period of climatic instability, which will have devastating consequences.

One example concerns our Nation's forests. George Woodwell, Director of the Woods Hole Research Center in Massachusetts, has called the world's forests "the great biotic flywheel that keeps the biosphere functioning as a place suitable for life as we know it." Dr Woodwell suggests that global warming will make North America unsuitable for both the southern deciduous forests and the northern boreal forests. Expansion of grasslands into these areas -- the death of forests along climatic borders -- would be quite sudden. The re-establishment of deciduous forests in more northern latitudes probably would not occur as fast as climatic changes.

Absent human needs, these sudden changes in the biosphere would have consequences only for the dying trees and related plant and animal communities. Over the course of many centuries, new forests and new species would emerge elsewhere in response to the new physical realities.

But human needs and global economy do not have the luxury of the long view. The sudden disappearance of the U.S. Corn Belt or our southeastern forests would be a human catastrophe. Those who counsel delay until science answers every last question, and those who rely on adaptive responses to keep pace with the results of climate change, are living in a fool's paradise.

NRDC believes the gigantic global experiment of global warming must be slowed and ultimately halted. Delaying the rate at which warming occurs will reduce its consequences and buy time for humanity to alter energy use and other activities so as to limit emissions of these gases to levels which cause no further warming.

There are ways of doing this. But they require that we start immediately. Further delays in undertaking the necessary actions will subject us to additional adverse consequences and require us to take more draconian measures in the future.

C. What We Must Do

There is wide agreement about the actions needed to slow and minimize global warming. First, the world must virtually eliminate the use of CFCs that are damaging the stratospheric ozone layer and contributing to global warming. The pathbreaking Montreal Protocol agreed to in September 1987 should not lull us into a false sense of security. As noted above, the scientific evidence now shows that we must stop using these substances altogether.

A second great need is to lower carbon dioxide emissions by reducing reliance on fossil fuels through greater energy efficiency and increasing use of renewable energy sources. Without great improvements in energy efficiency, the global economy will rely increasingly on coal, the greatest source of additional emissions of carbon dioxide.

Highly relevant to the work of this Committee is the fact that, if present trends are allowed to continue, the developing nations will burn much greater amounts of fossil fuels and account for a much greater proportion of global CO_2 emissions. Unless they participate from an early stage in efforts to minimize emissions, their activities alone could defeat the worldwide goal.

Reducing the rate of deforestation also will lower carbon dioxide emissions, while planting trees on a massive scale will soak up atmospheric CO_2. Development aid agencies can play an important role.

Mr. Chairman, immediate, vigorous actions of these kinds could hold global warming to tolerable levels. This will not be easy, for this challenge may be the greatest the human race has ever faced. If we are to meet that challenge, the United States must be a leader. This Committee has a very important role to play. Specifically, we urge you to:

1. Call on the State Department and other agencies to (1) fulfill the President's pledge to convene a high-level international meeting to discuss what needs to be done, (2) raise the issue whenever possible in bilateral discussions with foreign governments, and (3) make it a high priority for all relevant international organizations.

2. Call on the State Department to urge other governments to join us in strengthening the Montreal Protocol as rapidly as possible, with the aim of ceasing all use of ozone-depleting gases by the mid-1990s.

3. Adopt the specific recommendations which appear below concerning the U.S. bilateral aid program, the multilateral banks, and the UN Environment Program.

III. The U.S. Bilateral Aid Program

NRDC has been working for more than ten years to influence the U.S. Agency for International Development toward greater emphasis on environmental protection. During that time, AID has become the recognized leader among the world's development aid agencies in addressing environmental problems. AID is still doing a number of good things. But I have never been so apprehensive about the lack of leadership within the Agency on these issues. The problem is compounded by the fact that the House Foreign Affairs Committee is now considering a draft bill that would set AID's environmental efforts back nearly a decade.

In addition to the immense problem of global warming, which could undermine all our development gains, we face galloping deforestation, continued desertification and soil erosion, and increased pollution that threatens health and productivity in many developing nations. Population growth threatens to outstrip production gains and place unsustainable pressures on the natural resource base in most developing countries. AID, which has a proven capability to address these problems, must increase its efforts as fast as possible.

Yet there is little sign that the leaders of the Bush Administration and the Agency recognize the seriousness of these problems. I am not sure whether President Bush has ever mentioned AID in public. The only recent, high-level policy perspective from the Agency is a February report by the Administrator entitled "Developing Countries and the National Interest: U.S. Economic Assistance into the 21st Century." That report damns AID's past efforts and proclaims free enterprise to be the answer. It scarcely mentions AID's environmental protection efforts and does not even refer to the enormous environmental problems faced by developing nations and the world as a whole. The FY 90 budget proposes "business as usual" on the environmental, energy, and population fronts. It fails even to mention the global warming problem.

The Congress must correct this situation. This is no time to pussyfoot. The Agency is moving in the opposite direction from what is needed to ensure the livability of our planet, and must be given firm direction. Project Blueprint, the combined effort of 18 major environmental groups with a total membership of over 7,000,000, recommended that:

> "our bilateral foreign assistance be focussed on helping nations achieve sustainable development by:
>
> * Enhancing their agricultural resource base and promoting environmentally sound food production.
>
> * Meeting their energy needs in ways that are environmentally sustainable, with an emphasis on energy assistance designed to meet human needs while minimizing global warming.
>
> * Conserving tropical forests and biological diversity.
>
> * Stabilizing population growth.
>
> We should target much of our family planning, agricultural, and forestry aid on sub-Saharan Africa, the region of the world closest to environmental

disaster. In Central America, U.S. assistance should be redirected toward activities that support sustainable development. Our aid should feature small-scale, local projects designed to help people help themselves. These projects should be selected with an eye toward replicating them on a wide scale if they prove successful. We should use our influence with other aid-giving nations to get them to focus their aid on similar objectives."

This Committee should help make this happen by insisting that AID do more in key areas -- energy and forestry actions to deal with global warming, sustainable agriculture and water development, wildlife protection, and population assistance. In addition, you should require that AID maintain the Africa Fund and continue to provide substantial environmental assistance to Africa.

A. Energy and Global Warming

AID is well situated to help developing nations meet their energy needs in ways that minimize carbon dioxide emissions. Yet AID's energy program is extremely small and is not focussed on this goal. This Committee should firmly direct AID to:

1. Expand its energy efforts and focus them clearly on energy conservation and renewable energy sources. This requirement should apply especially to ESF countries, where AID is still helping nations develop fossil-fuel energy systems which exacerbate the global warming problem.

2. Identify the developing nations that are especially crucial to solving the global warming problem; direct AID Missions located in those nations to work with them to develop energy policies and programs to address the issue, and find ways to undertake similar efforts in nations where AID does not have Missions, including major middle-income nations.

AID should help these key nations develop energy plans that employ end-use analysis to identify cost-effective actions to minimize reliance on fossil fuels. Nongovernmental organizations and academic institutions must be fully involved in this planning. Plans of this kind should be developed with AID assistance in each of the major ESF countries: Egypt, Pakistan, the Philippines, and Turkey. AID should figure out how to play a similar role in other key nations including China, India, Mexico, Indonesia, and Brazil.

AID also should be directed to adapt and expand its forestry activities to deal with global warming. Forestry plans for key nations developed under the Tropical Forest Action Plan should be reviewed and, if necessary, strengthened.

3. Refuse to provide any assistance for construction of large fossil-fuel power plants, as these will exacerbate the global warming problem, unless a thorough analysis reveals no conceivable alternative. Even then, AID should focus on making the plant as efficient and environmentally sound as possible.

4. Lead other development assistance agencies and international organizations to recognize the importance of actions to address global warming, through the Intergovernmental Panel on Climate Change, the OECD's Development Assistance Committee, and other means. AID should make special efforts to influence the multilateral banks, which are lagging as described below.

In order to do these things, AID must increase considerably the number of AID permanent-hire staff with energy expertise. Currently, AID has only a few such employees. AID also must develop a cadre of U.S. experts from industry, academia, nonprofit institutions, and other government agencies capable of providing technical assistance to developing countries.

AID should view these efforts as a first step toward an AID-led, coordinated international effort to ensure that the aid agencies work together to identify and meet investment and technical assistance needs. This should feature systematic, country-by-country end-use analyses of the energy sector, with a designated aid agency taking the lead in each country in cooperation with the host government, leading to the development of national programs to meet the energy needs thus identified. AID should ensure that such a process emerges from the work of the Intergovernmental Panel on Climate Change.

Even the first steps we have recommended will cost money. As recommended above, the ESF program provides a way to make a start in key countries. However, ESF funds cannot provide AID with the kind of central capability it needs to address the global warming issue. Incredibly, AID's FY 90 budget request for the Agency's Energy Office proposes to reduce its budget from $10 million to $9 million.

This Committee should recognize the importance of this issue to our national security by requiring AID to fund the Energy Office at a level of at least $20 million. We face a global emergency and must respond accordingly.

B. Effective Environmental Assistance to Africa

Africa continues to face mammoth problems of environmental degradation and population growth. AID must continue to support efforts to solve these problems.

The future productivity of African agriculture depends on a sound natural resource base. The trends of desertification and deforestation must be reversed and growth in human populations greatly slowed if per capita food production is to be increased or even sustained.

In addition to greater support for voluntary family planning, actions are needed to reverse the degradation of the natural resource base. Environmental and social conditions in Africa -- including the weaknesses of national governments, the lack of transport and communications systems, the need for careful management of fragile soils and water supplies, and the existence of strong institutions at the village level -- dictate that these efforts must come from the bottom up, not the top down. The most important efforts must take place at the local level, with strong national support.

The U.S. Office of Technology Assessment has stated that "the technology most needed in sub-Saharan Africa should be low-risk, resource-conserving, small-scale, affordable (not capital intensive), locally produced and repaired, adapted to local labor availability, and consistent with traditional agricultural methods." U.S. assistance to Africa must foster these kinds of initiatives.

At the local level, what is needed is a multitude of small-scale efforts to increase food production in ways which protect and restore the natural resource base. These should include agroforestry, small-scale farms and gardens, and other innovative agricultural methods (including energy- and resource-conservation techniques and use of low-input, organic, or regenerative methods where feasible); check dams and terraces and other projects to prevent erosion or protect watersheds; tree planting for windbreaks, soil stabilization, or firewood; energy conservation and small-scale energy production to reduce consumption of firewood and animal wastes otherwise usable as fertilizer; and local health and training efforts.

These projects can only succeed when local people are involved at all stages of project design and management. There must be greater involvement of African women, who usually are the ones who actually labor in the fields. Projects should routinely include training and educations components designed to prepare local people to participate fully and to take over when foreign assistance ends.

Commonly, the best way to involve local people will be through local governmental organizations, such as village councils; local nongovernmental organizations; or U.S. private and voluntary organizations. A constant theme among aid agency personnel and others who have spent time on the ground in Africa is that projects administered by these types of organizations are most likely to succeed. African development must build on this field experience, so that these projects are not isolated examples but the norm.

We emphasize especially the role which must be played by indigenous African groups. Village institutions in Africa are relatively strong. They must be involved in the planning and implementation of projects, and in their administration. Village people must be educated, trained, and otherwise prepared to carry on after external assistance comes to an end. The growing number of national and provincial indigenous nongovernmental organizations can help make this happen, as can international nongovernmental organizations like the Nairobi-based Environment Liaison Centre, the International Union for Conservation of Nature, and the World Wildlife Fund.

Purely local actions will not be sufficient to maintain and restore the natural resource base. The local projects just described must be backed up by efforts at the national level to establish or strengthen institutions such as environmental authorities, nongovernmental organizations, and soil conservation, agricultural extension, and forestry services; provide seeds, seedlings, energy-efficient and resource-conserving devices, and other needed materials; and create financial mechanisms to furnish credit to small farmers.

There is a need for training and education activities at the national as well as the local level. These should include support for African training and educational institutions; development of curricula; training and education through national institutions in Africa; establishment of cooperative relationships between U.S. and African educational institutions; support for natural resource managers to participate in conferences, courses, and the like; and training of trainers.

Continued congressional direction is required if these actions are to occur on the right scale. U.S. AID has supported some efforts of the right kinds with respect to both population and the environment, but needs to do more. Only congressional direction can ensure the right kinds of efforts in the face of budgetary pressures and competing priorities.

We therefore ask that you earmark for the Africa Development Fund at least the $565,000,000 the Administration has requested. To ensure that these funds are wisely spent, we ask that, as you have done in the past, you require that AID target at least 10%

of these resources on efforts to restore the natural resource base and another 10% on family planning assistance. We further ask that you include report language requiring that, of the funds targeted on maintaining and restoring the natural resource base, AID shall "place primary emphasis on small-scale projects featuring involvement of local people at all stages of project design and implementation." This will ensure that AID's scarce money is spent as effectively as possible, and would be consistent with the Foreign Assistance Act amendments that passed the House by an overwhelming margin in 1987.

C. Fostering Sustainable Agriculture

We would stress that AID should not spend its scarce resources on support of agricultural production from the most fertile lands. Rather, AID's role should be to help poor farmers on marginal lands to develop environmentally sustainable methods of production. More than a billion people of the world's people depend on these lands, and their numbers are increasing. Unless their agriculture is sustainable, the result will be widespread environmental degradation. For further information, we suggest that the Committee contact former Ambassador Robert Blake, Chairman of the nongovernmental Committee for Agricultural Sustainability in Developing Countries.

D. Preventing Extinction of Wildlife Species

We face the horrifying prospect of losing, in just the next few decades, up to a quarter of all the earth's plant and animal species, due mainly to destruction of tropical forests and other habitats. Scientists warn that we face a wave of extinctions comparable in magnitude to that which destroyed the dinosaurs and many other species some 65 million years ago. Harvard Professor Edward O. Wilson, the "father of sociobiology," has said that this loss of living species is the loss our descendants will least forgive us.

The economic consequences of losing this huge, untapped resource are incalculable but plainly enormous. Even now, one-fourth of all prescription drugs in this country had their origin in tropical plants or animals.

USAID can do a great deal to help countries safeguard habitats and species. Section 119(b) of the Foreign Assistance Act directs AID to:

> "assist countries in protecting and maintaining wildlife habitats and in developing sound wildlife management and plant conservation programs. Special efforts should be made to establish and maintain wildlife sanctuaries, reserves, and parks; to enact and enforce anti-poaching measures; and to identify, study, and catalog animal and plant species, especially in tropical environments."

In the two-and-a-half years since this section was last amended, AID has responded well and has funded many important activities. In particular, NRDC wishes to commend AID for providing funds to make it possible for the International Union for Conservation of Nature to prepare a draft of a badly needed international convention to protect, on a worldwide basis, animal and plant habitats of special importance for conservation of biological diversity.

Loss of biological diversity is one of the most important problems facing the world. The issue could not be more urgent: when a species is lost, it and all its benefits are gone forever.

AID has proved that it can be highly effective in this area, and has a large backlog of excellent projects which it is unable to fund. NRDC therefore urges this Committee most strongly to earmark $10 million to be spent for this purpose in FY 90, an increase from the $6 million the Agency apparently plans to spend. The United States could not make a better investment in the future of life on this planet.

E. Adequate Funding for Population Assistance

Overly rapid population growth and environmental degradation in developing nations are inextricably linked. We cannot achieve sustainable development without stabilizing populations. Yet experts project that -- to cite only a few examples -- Mexico eventually will grow from its present population of 82 million to 195 million; El Salvador from 5 to 16 million; Kenya from 21 to 116 million; and The Philippines from 58 to 125 million.

Needs for family planning services still are unmet in many nations. AID must be a leader in meeting these needs. Last year the Congress recognized the importance of population assistance by appropriating $195 million for AID's efforts in addition to those under the Africa Fund. Even so, this amount reflected a substantial decline from the levels of FY 85-87. For FY 90, the Administration is requesting just over $200 million.

We must abandon this miserly approach. The unmet need is way out of proportion to AID's current efforts. Project Blueprint recommended, and we urge this Committee to require that AID spend in FY 90 at least $500 million on this crucially important program, and to insist that all those funds actually be spent on population assistance and not be diverted elsewhere.

F. The House Foreign Affairs Committee Draft Bill

We are extremely disappointed in the approach adopted thus far by the House Foreign Affairs Committee in its efforts to reauthorize the Foreign Assistance Act. The groups for which I am testifying have been leaders for ten years in lobbying for amendments to the Foreign Assistance Act -- notably sections 117, 118, and 119 -- which give AID essential mandates for action to protect the environment and natural resources. Without those mandates, AID would be doing far less in these critical areas.

The current House draft bill would wipe out these years of progress and substitute a few vague sentences containing no specific guidance. In view of the virtual neglect of these matters in the Administrator's February 1989 report and the fact that there is no way to know who will head the Agency in the future, we have no confidence that, under this vague mandate, the Agency would even maintain its current levels of effort on these issues, much less increase those efforts as is plainly needed. Nor are we convinced that the Agency will take the right kinds of actions in these areas. In short, the House draft would meet none of the needs we have identified above. Instead, it would set AID's environmental programs back almost ten years.

More specifically, we oppose the draft House bill on the following grounds:

- It repeals sections 117-119, recently enacted provisions that have proved both necessary and beneficial.
- It fails even to refer to the problem of global warming of the atmosphere, the greatest environmental challenge humanity has ever faced.

- It scarcely mentions family planning assistance. In view of past efforts to gut this part of AID's program, a strong, specific mandate in this area is essential.
- It does not require specific minimum levels of effort in the critical areas described above. Under the draft bill, AID could reduce its environmental and population efforts very substantially and still claim it was fulfilling the requirements of the Foreign Assistance Act. AID must be required to spend specific minimum dollar amounts in these critical areas.

Over the past few months, NRDC has been working closely with over 25 U.S. religious, development, and environmental organizations to develop legislative proposals to remedy the above defects. We urge this Committee to adopt those proposals. We know our members would support such a foreign assistance program, and we believe the American people as a whole would do so.

IV. The Multilateral Development Banks

Mr. Chairman, the environmental performance of the multilateral development banks is till highly inadequate. Despite the widely publicized staffing expansion at the World Bank, for example, the Bank has made little progress on other critical issues that this Committee has addressed in the past. We urge the Committee to require the Treasury Department to press the MDBs for improvements in the following areas.

A. Environmental Impact Assessment

The controversial MDB projects which NRDC and other environmental groups have identified in the past have, unfortunately, only been recognized as social and environmental disasters after they have been implemented. In order to prevent such tragedies in the future, the MDBs must improve their ability to foresee the social and ecological implications of their actions and modify or eliminate their support for potentially destructive projects.

It is imperative that the MDBs carry out comprehensive environmental assessments of all projects early in the project cycle, before tragic mistakes are allowed to occur. However, none of the MDBs has yet adopted a systematic process of environmental impact assessment (EIA) early in the project cycle.

World Bank staff have claimed that they perform environmental assessments. But the Bank has not adopted an EIA process that meets even the minimum accepted international standards established by the United Nations Environment Program in its nonbinding 1987 statement on "Goals and Principles of Environmental Impact Assessment." While a short discussion of environmental impacts is included in the Staff Appraisal Report for each World Bank project, these discussions tend to be cursory at best and rarely raise any issue that would threaten the project's approval. No explicit written evaluation of a proposed project's environmental impacts are prepared before the loan approval stage. Furthermore, the Bank does not require that affected people be advised of the potential environmental impacts of a proposed project.

The Bank should formally require the preparation of a comprehensive written analysis for each project, conducted at the earliest stage of the project cycle, which (1) describes the potential effects, both beneficial and adverse, of the proposed project on the local, regional, and global environment, (2) examines alternatives to the proposed project and analyzes the potential environmental effects of those alternatives, and (3) suggests steps to mitigate the adverse effects of the proposed project. Public participation is essential; affected people and concerned nongovernmental organizations from both donor and borrowing countries should be invited to participate in the actual assessment and to comment on both draft and final EIA documents.

Mr. Chairman, it is time for the Congress to make sure these crucial steps are taken. We ask this Committee to require the Treasury Department, after a suitable phase-in period (perhaps 18 months), to include in every recommendation for a U.S. vote on a proposed MDB action that would significantly affect the environment an EIA analyzing the environmental impacts of the proposed action and of alternatives to the proposed action. That EIA should be available to the responsible U.S. officials and to the public not less than six months before the proposed vote.

Of course, our objective is not to have the Treasury gather the information and prepare the assessment, but to have the MDBs themselves do so. A legal requirement that the Treasury have an EIA before the United States can vote on proposed loans would be a powerful incentive for the banks. Until the MDBs correct this deficiency, the banks' wasteful, counterproductive support of socially and ecologically destructive projects seems certain to continue.

B. Public Accreditation To Attend World Bank Meetings

In a shocking display of high-handedness, the World Bank refused to grant a number of individuals representing organizations in borrowing nations permission to attend as observers the crucially important World Bank-IMF annual meeting last September in Berlin. Nationals of India, Indonesia, Malaysia, and the Sudan were prohibited from attending the annual meeting because their governments rejected their repeated requests for accreditation. An individual from Brazil was accredited so late as to render that action meaningless. In addition, NGOs from Japan and the Federal Republic of Germany failed to receive credentials.

The Bank's procedures put veto power squarely in the hands of individual governments, with no assurance against arbitrary denial. The result was a patchwork of NGO representation at the meeting, despite the fact that great care had been taken by NGOs to assure the presence of a broad cross-section of individuals.

No single government should be permitted to deny accreditation to meetings of these multilateral institutions as a whole, for this is inconsistent with the very concept of multilateralism. The resulting abuses are among the most obvious failures by the Bank and the IMF to be responsive to the interests of the constituency the institution claims to be advancing -- the public in the developing world.

In contrast to the World Bank's practice, NGOs are routinely accredited as observers, with the right to attend and in many cases to participate in meetings, by the UN Secretariat and the secretariats of UN programs and specialized agencies. We have been represented at numerous meetings of the UN Economic and Social Council -- where a number of us have been granted standing consultative status as observers -- the UN Environment Program (UNEP), the UN Food and Agriculture Organization, and the various international maritime organizations. Indeed, this practice of extending invitations to NGO observers or visitors directly from the multilateral institution concerned has in fact been adopted by at least two of the regional development banks -- the Inter-American Development Bank (IDB) and the African Development Bank (AfDB).

The World Bank's current policy is nothing more than an invitation to abuse and must be revised. I urge this Committee to demand reforms in the Bank's and the Fund's procedures before the next annual meeting to assure that accreditation is awarded by the Bank/Fund Joint Secretariat and that approval by individual governments is not required.

C. Public Access to Information

The World Bank still withholds key documents, describing both the design of individual projects and the Bank's larger lending strategies for individual countries, from the public in borrowing and donor countries alike. This policy of strict secrecy is yet another example of the World Bank's failure to involve NGOs and the general public in the development and execution of its projects.

Broad public participation is crucial to the success of development projects sponsored by the MDBs. Access to project documents is a fundamental component of public participation. The World Bank, however, continues to refuse access to project documents to NGOs, the public, and even governmental agencies of both borrowing and donor countries who are not directly involved in the project.

The public does have limited access to those documents which the World Bank releases to its Executive Directors. NRDC, for instance, has submitted a request to the U.S. Treasury under the Freedom of Information Act for a number of World Bank documents in the Treasury's possession, and we have been told informally that our request will be granted.

Even this burdensome process, however, does not guarantee substantial access to Bank documents. The Bank releases only a limited number of its internal documents to its Executive Directors. Project-specific documents, including staff appraisal reports and President's recommendations, only reach the Executive Directors immediately before project approval, and are often sanitized of any information, environmental or otherwise, which would cast doubt on the viability of the project. More general Country Strategy Papers, which lay out the Bank's long-term lending plan for particular countries, are not routinely available to the Executive Directors.

Currently, NGOs, the public, and even governmental agencies in MDB member countries are able to obtain only those documents which have been released to the Executive Directors. Neither the U.S. Treasury, nor the governmental agencies in other countries which direct the votes of their Executive Directors, have an effective mechanism for compelling the Bank to release other documents.

As a result, the information currently available to the public is totally inadequate for meaningful public input into the Bank's lending processes. The most basic points concerning the need for the loan, project design, and conditionality -- all of which have a direct relationship to environmental impacts -- are secret both before and after Board approval of a loan. This policy of concealment has direct, harmful consequences for local people, who often cannot obtain any information about proposed and ongoing projects that have immediate impacts on their lives, environment, and livelihoods.

A principal reason cited by Bank staff for this policy of secrecy is the need to preserve the confidentiality of relationships with borrowers. Borrowing countries, the theory goes, are highly sensitive about making public information contained in Bank documents. Yet when NRDC in 1988 received explicit approval from the Botswana Government for release to NRDC of a key document concerning livestock management, the Bank still refused our request for the document.

Mr. Chairman, we urge this Committee, in its oversight capacity, to insist that the U.S. Treasury carry out its mandate under 22 C.F.R. 262m-5(b)(5) and instruct the U.S. Executive Directors to the MDBs that they must:

> "vigorously and continuously [promote] full availability to concerned or affected nongovernmental and community organization, [sic] early in the preparation phase and at all subsequent stages of planning of full documentary information concerning details of . . . proposed loans."

D. MDB Energy Programs and Climate Change

The production and use of energy has become a major issue for the economic and environmental sustainability of Third World development. Developing countries now face an "energy crisis" more severe than the oil shortages that buffeted industrialized economies in the 1970s. Severe constraints on local capital and foreign exchange stifle the attempts of these countries to meet their growing energy needs through the expansion of large-scale electric power facilities and increased purchases of fossil fuels, whether domestically produced or imported. Recent headlines describing power outages in Argentina and China document the inability of developing countries to meet rapidly growing energy demands.

Increasing the use of fossil fuels has severe effects on both the local and global environment. Fossil fuel extraction and fossil-fuel power plants already contribute to widespread environmental degradation in developing countries. Burning fossil fuels also emits CO_2 to the atmosphere and exacerbates global warming due to the greenhouse effect. The developing world is expected to account for over 50% of global greenhouse gas emissions well before the end of the next century.

These economic and environmental pressures mean that developing countries must find other ways of meeting their growing energy needs. An energy strategy that focuses on improving the efficiency of energy use and promoting the production of energy from renewable resources can alleviate both economic and environmental pressures.

Last year this Committee called on the MDBs to increase their support for efficiency and renewables. Unfortunately, the MDBs have not heard the message, and the record of MDB lending for end-use efficiency and renewable energy remains poor. Over the past decade, these areas have accounted for less than 5% of World Bank energy lending, and a quick look at the projects in the Bank's pipeline reveals only a handful designed to improve end-use efficiency or promote renewable energy other than large-scale hydro. The record of the regional MDBs is even less impressive.

NRDC, in cooperation with the U.S. Treasury, is currently involved in a review of MDB energy programs, designed to identify the forces within the MDBs that have perpetuated these low levels of lending. The impetus for this study was last year's instruction to the Treasury that the U.S. Executive Directors promote greater emphasis on energy efficiency and renewable energy by the MDBs.

Our study, still in progress, reveals that MDB staff individually recognize the urgent need for more activity in these areas. But projects in end-use efficiency and renewable energy are not normal for the MDBs. While the MDBs are used to financing discrete projects for large electric utilities, efficiency and renewables projects are directed at a large number of diverse and diffuse energy users. Identifying local institutions to implement such projects is difficult; typically such institutions have to be built from scratch.

The MDB technical staff, as well as borrowing-country technical personnel, are weak in the areas of end-use efficiency and renewable energy. One World Bank staffer recently told us that he could count the number of Bank staff with technical expertise in end-use efficiency on one hand and still have fingers left over. As a result of these institutional and technological deficiencies, the banks have not been able to develop a methodology for "least-cost" energy planning that allows concrete investments in end-use efficiency and renewable energy to be considered as alternatives to conventional energy supply.

Projects for end-use efficiency and renewable energy, as they have typically been packaged, involve smaller sums of money and often require greater involvement by Bank staff than more conventional energy projects. World Bank staff have revealed in confidence that a proposal from Tunisia for an energy conservation project and a proposal from China for a renewable energy project were refused because they were not considered large enough for Bank involvement.

More recently, the Minister of Natural Resources, Mines and Energy for Costa Rica, Dr. Alvaro Umana, solicited the support of the World Bank and the Inter-American Development Bank for an initiative to improve efficiency in the production, distribution, and use of energy throughout Central America. The IDB has not yet responded to the Minister's request, and the World Bank's response indicate that it has no plans to increase its involvement in end-use efficiency projects in the region. We urge members of this Committee to support Minister Umana's efforts with the MDBs.

Our study of MDB energy lending thus has revealed that the will to pursue efficiency and renewables projects does exist among MDB staff. However, structural and methodological constraints within the banks prevent actual MDB lending.

Even though our study is still in progress, NRDC has formulated the following preliminary recommendations for reform. These steps will allow the MDBs to increase their support for projects and programs in end-use efficiency and renewable energy. When we have completed our study we will inform you of our final recommendations. Our preliminary recommendations are:

- The MDBs should augment their technical staff to include much more expertise in end-use efficiency and renewable energy.
- Energy sector investment plans in developing countries should include investments in end-use efficiency and renewable energy. The MDBs should take a proactive role in encouraging borrowing countries to include these elements in their sector planning. This should include design of workable planning models and technical assistance in applying those models to borrowing countries' energy sectors. Because current data on energy use is too rough to support such a plan in most developing countries, a significant share of MDB technical assistance should be devoted to detailed audits of energy use.

- The MDBs are studying methods for including environmental costs in the economic assessment of proposed projects. Pending the development of a suitable methodology, MDB staff should include in the economic assessment of proposed projects that support an expansion of power capacity of more than 100 Megawatts a standard increase in project costs of 20% as a surrogate for the environmental costs. This should be done in sector planning as well as project appraisal.

- As recommended above, the MDBs should develop methods for detailed environmental assessment of a proposed project and its alternatives.

- End-use efficiency and renewable energy should be explicitly and systematically discussed in the negotiation of policy-based energy sector lending. The MDBs already put heavy emphasis on the structure of energy prices in sector loan negotiations. The agenda should be expanded to include concrete investments in end-use efficiency and renewables. A sector loan should not go forward without a commitment from the borrowing country to devote a significant portion of its sector investments to energy efficiency. A benchmark for the level of this commitment should be 20% of the amount of the sector loan. As with all MDB loans, subsequent loans should be based on the borrowing government's timely implementation of these conservation investments.

  The MDBs should provide technical assistance as a component of their sector loans to help borrowing countries identify and pursue efficiency investments appropriate to their individual sector conditions. They should support efforts ranging from technical collection of data on energy use to institution building in power utilities to lending to established conservation programs.

- The MDBs should refuse to support individual projects that are not a part of the sector plans just described. They should aggressively pursue projects in end-use efficiency and renewables in countries that have developed the necessary economic, institutional, technical, and political conditions.

- Structural and institutional barriers in borrowing countries must not excuse the MDBs from promoting investment in end-use efficiency and renewable energy. Rather, the MDBs should actively support institution building and technical assistance projects to overcome these barriers.

Several of these recommendations -- staffing increases, an EIA process, and a "least-cost" sector planning process -- have already been included in previous congressional instructions to the Treasury. I urge this Committee to make full use of its oversight function to ensure that these instructions are carried out.

Unfortunately, the MDBs have not begun to develop answers to the growing problem of greenhouse gas emissions. While the MDBs have recognized the need to encourage energy and forest conservation for their local economic and environmental benefits, they have not addressed the broader issue of global warming.

We have had several discussions with staff in the Environment and Energy departments of the World Bank on this subject. The directors of both departments have told us that current scientific uncertainties surrounding greenhouse climate change are too great to permit the Bank to advocate policies to reduce greenhouse gas emissions in its member countries. They have argued that encouraging developing countries to moderate their emissions of greenhouse gases is in effect to tell them to limit their economic and social development.

It is time for the World Bank and the other MDBs to update their thinking to match that of the international community as a whole. As noted earlier, it is now clear that immediate actions are necessary to reduce global emissions of greenhouse gases.

The World Bank's position that asking developing countries to moderate their greenhouse gas emissions is inequitable is misguided. The most effective strategies for limiting the Third World's emissions of greenhouse gases -- increasing the efficiency of energy use and drastically reducing the extent of deforestation -- make sense for economic and environmental reasons even without consideration of climate change. The MDBs represent the largest single source of foreign exchange for investment in Third World energy sectors. Devoting the funds of the industrialized donor countries to supporting economically justified policies to moderate Third World greenhouse gas emissions is a truly equitable means of moderating global emissions.

Furthermore, recognition is growing in the developing world that climate change is a global problem with severe effects on developing countries. At a recent conference in India, a top Indian scientist called for an end to "finger pointing by Third World countries against the industrialized world about global warming. . .and [a] recognition that poorer countries must play a more active role."

The thinking of the MDBs on the issue of greenhouse climate change is outdated and contrary to the interests of their member countries. I urge this Committee to send an even stronger directive to the Treasury to promote MDB policies and actions which minimize emissions of greenhouse gases.

E. Application of Environmental Standards to Sector and Structural Adjustment Loans

The World Bank appears to have made some progress in mitigating the most obvious adverse impacts of its project lending. This has been accomplished primarily through (1) the adoption of a series of environmental standards, such as the Bank's Operations Manual Statement on resettlement; and (2) a screening process for proposed project loans, relying primarily on the staff in the regional environmental units.

However, there is a serious gap in the application of these standards to so-called non-project lending -- "sector" and "structural adjustment" loans. The need for the Bank to craft a strict policy in this area was recently driven home by the proposed $500 million electric sector loan to Brazil, which we understand to have been withdrawn by that government. This quick-disbursing loan would have supported an investment program that could have resulted in the construction of up to 79 dams in the Brazilian Amazon and continued construction of two nuclear power installations. Throughout the public debate over this loan, it was clear that the Bank would have little to say about the environmental quality of individual projects in the investment program, particularly once the money was disbursed and the Bank's leverage reduced.

The application of the Bank's environmental standards to non-project lending presents real difficulties, but a solution must be found. NRDC urges this Committee to direct the Treasury to take this matter up with the banks and report back to you.

V. The Debt Crisis

The Report of Project Blueprint emphasized that the debt crisis exacerbates environmental problems and makes them much harder to solve:

> "It is absurd to think that developing nations can meet the needs of growing populations in an environmentally sustainable manner when the United States and other industrialized nations are extracting billions of dollars in capital from them each year on net balance, instead of investing in them. In many nations, per capita income has actually declined during the 1980s. Yet the United States has refused to even consider significant reductions in the $1 trillion dollars in debt now owed by developing nations, even though everyone knows that much of it can never be repaid."

We recommended:

> "The President should exert strong leadership to solve the international debt crisis. The United States should make constructive proposals, including forgiveness of debts owed our Government by the poorest nations, and present them at next year's Western Economic Summit and other appropriate fora. Large-scale 'debt-for-nature swaps,' in which developing nations agree to protect their forests and other environmental resources in return for debt relief, should be part of the solution."

Treasury Secretary Brady recently announced an initiative to relieve the debt burden. The specifics are not yet clear, and many are afraid that the result will be too little debt relief to make a significant difference.

As recommended by Project Blueprint, NRDC believes that U.S. actions to address this issue should include outright forgiveness of debts owed by very poorest nations -- those with a per capita GNP of less than $550. We also believe the United States should:

- o Move rapidly to provide adequate debt relief to all affected nations.
- o Make actions to protect the environment and conserve natural resources a condition for debt relief whenever appropriate.
- o Make bilateral assistance funds available to nongovernmental organizations to purchase local currency in "debt-for-nature swaps."
- o Press for coordinated actions concerning debt for nature by the major donors, through the OECD's Development Assistance Committee.
- o Urge the IMF and multilateral banks systematically to make increased conservation and environmental protection a goal in all their efforts to reduce the debt burden.
- o Initiate negotiations with the aim of establishing an international institution to facilitate exchanges of commercial debt for conservation purposes.

Several bills authorizing the steps outlined above, and other actions concerning the debt crisis, will be coming before the Congress this year. We urge this Committee to encourage and, if possible, require actions consistent with the above recommendations.

VI. The UN Environment Program

Only one international agency is grappling with all the problems I have described: the UN Environment Program (UNEP). Established in 1973, UNEP plays an essential role as catalyst, coordinator, and international forum. It is not an operational agency, but a tool which nations -- including our own -- can use to address problems effectively and cheaply. UNEP has been responsive to U.S. interests, and is tightly managed in spite of continual uncertainties about funding. NRDC urges this Committee to recommend a much higher U.S. contribution to UNEP.

UNEP has done a good job. Without UNEP, the world's nations would not have reached agreement in 1987 in Montreal on the crucially important protocol to regulate chemical compounds which are depleting the ozone layer, and would have no forum in which to strengthen that protocol. UNEP played a crucial role in developing the Cairo Plan of Action under which African nations have agreed to cooperate in solving their severe environmental problems. UNEP's International Register of Potentially Toxic Chemicals helps developing nations control dangerous chemicals. Its Regional Seas Program ensures sound management of marine resources.

UNEP must step up its vitally important work. The future security of the United States and the entire world demands that we address successfully the problems of ozone depletion and global warming. UNEP is the key agency on the world scene.

In addition to improving the Montreal protocol on ozone depletion, UNEP must help the world solve the problem of global warming. UNEP is needed as a forum in which to negotiate a world convention on preventing climate change and to help developing nations get on energy paths that minimize greenhouse gas emissions.

UNEP should also take other badly needed actions, such as:

- Helping developing countries build institutions that can enable them to increase their energy efficiency.
- Providing a forum to negotiate a badly needed treaty to protect animal and plant habitats on a worldwide basis.
- Additional steps to implement the Cairo Action Plan to protect the African environment and the Caribbean Regional Seas Program.
- Helping developing nations improve their ability to safeguard their own environments, thus preventing future Bhopal disasters, hundreds of thousands of pesticide poisonings each year, needless destruction of tropical forests, and the spread of the deserts. This should begin with sharply stepped-efforts to assist nations in implementing the Cairo Action Plan, and increased actions by UNEP's International Register of Potentially Toxic Chemicals.
- Training people in developing countries to interact more effectively with UNEP's Global Environmental Monitoring Program.
- A variety of actions to work with countries at the regional level.
- Working more closely with nongovernmental organizations that can help UNEP multiply its effectiveness.

These actions will require large staff and budget commitments. For example, essential actions on ozone depletion, global warming, and species conservation must be carried out by UNEP's Environmental Law Unit. Yet that Unit has only two staff members and a large agenda in addition to these issues. The staff now is overstretched by efforts to renegotiate the Montreal ozone depletion accord, and has little ability to work on the global warming problem. The size of the Unit should be increased several times.

The parts of UNEP that would be responsible for the other actions recommended above -- the Regional Seas Program, the International Register of Potentially Toxic Chemicals, the Cairo Action Plan, the regional programs in Asia and Latin America, and those who work with NGOs -- are equally underfunded. In fact, due to budget shortfalls, UNEP now is forced to operate with a 20% staff vacancy rate. To get up to full speed and meet urgent environmental needs, UNEP should be spending at least $2 million a year more in a number of key areas: law, the Cairo Plan, the IRPTC, GEMS, and regional and NGO programs.

Yet UNEP is not even sure of the $30 million a year in national contributions needed to continue its present work, much less the additional resources just described. The blame lies to a great extent with us. Between 1974 and 1984, the United States contributed $10 million a year to UNEP, but in recent years we have allowed our contribution to dwindle. In Fiscal 1989 the Congress pushed the contribution up to $9.5 million, equal in real terms to less than half as much as we gave UNEP a decade ago. For FY 90, the Bush Administration -- headed by a President who claims to be an environmentalist -- proposes to give UNEP just $7.7 million.

Mr. Chairman, we appreciate all that you and this Committee have done for UNEP over the years. But this nickel-and-dime approach is ridiculous. This is an agency whose work is vital to the future security of the United States. We must give it the resources to do its job.

Therefore, NRDC asks that this Committee authorize a U.S. contribution to UNEP of at least $20 million in FY 90. This is the contribution recommended by Project Blueprint. It will allow UNEP to get its head above water and take the crucially important actions just described. It will send a signal to other donors and the world community that the United States believes these problems are serious and wants others to join us in addressing them.

UNEP needs guidance as well as money from the United States. With respect to ozone depletion and global warming, this Committee should direct U.S. representatives to urge that UNEP: (1) move as fast as possible to renegotiate the Montreal Protocol on ozone depletion, with the aim of phasing out harmful chlorofluorocarbons and related gases by 1995; (2) serve as the forum for negotiation of a badly needed convention on global climate change; and (3) establish a strong, catalytic program to help developing nations identify opportunities for energy efficiency improvements and increased reliance on environmentally sound renewable energy sources, and work with aid donors to make sure those opportunities can be realized. With respect to species conservation, this Committee should direct them to urge that UNEP serve as the forum for negotiation of a badly needed treaty to protect critical habitats on a worldwide basis.

VI. Adequate Funding for CITES, World Heritage, and OAS

Mr. Chairman, last year environmental groups successfully urged the Congress to increase sharply the U.S. contribution to the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) above the requested level of $200,000. We detailed reasons why a small U.S. contribution would cripple efforts under that vitally important treaty, and the Congress appropriated $650,000. That contribution has put the work of the Convention on a sound footing.

Now the Bush Administration has requested for FY 90 the same low contribution: $200,000. Having put CITES on a sound footing, the last thing we should do is to cripple it again. We urge you to authorize at least $650,000.

The U.S. contribution to the World Heritage Fund, another important institution that has been limping along, is proposed for a reduction to $200,000 from the current, already inadequate level of $220,000. We urge you to authorize at least $500,000.

Another international institution that is doing excellent environmental work is the Development Assistance Program of the Organization of American States. Through this program, the OAS furnishes early technical assistance in the design of projects to be funded by the Inter-American Bank and others. This kind of early work can prevent disastrous environmental mistakes. We urge the Committee to authorize at least the requested $10 million.

VIII. Conclusion

By acting as we have recommended, this Committee can ensure that the United States provides the leadership essential to solving global environmental problems. We urge you most strongly to take these actions so important to the future of the earth.

Senator SANFORD. Thank you very much.

Senator Simon.

Senator SIMON. Thank you. I have just two comments. One, it does occur to me that we may be able to ask, for example, in Africa and not simply Africa, but you mentioned deforestation.

One of the things that we ought to do is ask for a report of what you are doing in each embassy, particularly in those sensitive areas on that problem.

One of the things that really hits me when I visit in Africa is there is no sense in talking to people about 5 years from now that you are going to be harming yourself. They have to live today, and they are just barely getting by. That is one area.

Forgive me for not knowing, but you mentioned the House bill repeals sections 117 to 119. Those do what?

Mr. STOEL. Section 117 is the section enacted about 10 years ago that gives AID its basic mandate in the area of environment and natural resources. Section 118 instructs AID to do specific things in the area of forestry. And section 119 deals with the loss of wildlife species and biological diversity. We believe these provisions are essential cornerstones of the Foreign Assistance Act, and we are very disturbed to see the prospect of their being repealed.

Senator SIMON. When our draft bill that is now making its rounds becomes public, if you can give me your specific reaction or give it to members of my staff, I would appreciate it.

Mr. STOEL. I certainly will.

Senator **Simon**. Thank you, Mr. Chairman.

Senator **Sanford**. Thank you very much.

Next is Ms. Sharon Pauling. She is the Africa policy analyst for Bread for the World.

I have suggested that we will put your full statement in the record. It is a very good statement. We will ask you to take about 5 minutes and give us a summary of what you feel the committee should be thinking about when it looks to authorization of the funding for AID programs.

STATEMENT OF SHARON PAULING, AFRICA POLICY ANALYST, BREAD FOR THE WORLD, WASHINGTON, DC

Ms. **Pauling**. Thank you very much, Mr. Chairman. I appreciate the opportunity to testify before this committee on the development fund for Africa which was established in 1987.

Just before I start, let me say that Bread for the World did also work with Steve Hellinger and others, and we fully affirm the comments that he made.

Africa continues to experience a severe economic crisis, rising debt burdens, a precipitous fall in commodity prices, and wars and famines have all contributed to increased human suffering in the region.

Bread for the World believes that the U.S. foreign assistance in the region should build upon the strengths and aspirations of the African people who are already working toward their own self-development. Foreign assistance should support a development process that is participatory, environmentally sustainable, and self-reliant.

In this context, I wish to talk about our concerns regarding the development fund for Africa, particularly those that focus on the quality of United States assistance through the development fund for Africa.

In 1987 Bread for the World did support the establishment of this fund for three primary reasons. One, we thought that it would respond to the need for a significant amount of well-targeted development aid to Africa.

Second, we thought it would redress past disproportionate cuts in United States economic assistance to Africa.

Third and very important, we thought that the development fund for Africa would be guided by the policy language from the proposed foreign aid authorizing bills of 1987, House Resolution 3100 in the House and S. 701 which passed in this committee. These both outlined a development approach to Africa that was most cost-effective, responsive, and sustainable approach for the United States foreign assistance.

This innovative approach was significant in the following ways. It identified the many groups which constitute the poor majority, including women, and provided mechanisms for their participation in the development process. It also guaranteed a minimum of 10 percent of the fund for critical sector priorities, particularly health. It provided specific recommendations for the protection of vulnerable groups when policy reform would be taken.

It is unfortunate that these authorization bills with this important policy language did not pass. At that time, Bread for the World suggested to the Appropriations Committees that they adopt that policy language so that it would be referenced in the appropriations bills for fiscal years 1988 and 1989. Unfortunately, that did not happen either.

We recommend that this committee adopt policy language similar to that now contained in House Resolution 1510 to meet this concern.

How has the development fund for Africa served the intention of the 1987 proposed foreign aid bill? Let me focus my comments on three significant areas.

In the area of participation and consultation, because there is no reporting requirement on the participation and consultation aspects of the fund, it is difficult to evaluate to what extent consultation with women and appropriate local indigenous organizations has been carried out or to what extent it may have had an impact on local programs. Neither has AID yet released any reports or evaluations it may have done of its first year's experience.

Bread for the World suggests to this committee that the assessment of the effective use of Africa funds is hampered by the lack of adequate accountability and evaluation provisions, and we urge that this committee require documentation on the nature and results of consultation.

In the area of earmarks, the proposed 1987 foreign aid bills prescribe 10 percent earmarks spending levels for the critical sectors of health, natural resources, and population. The appropriations bills unfortunately for fiscal years 1988 and 1989 prescribe the softer approach of requiring 10 percent targets.

Again, at both times we requested the earmark for health in particular because we felt that based on the history of low level allocations to help funding we feared the target would not be met. Our fears were proven justified. In 1988 the health target was not reached. In 1990, AID does expect to allocate only 8.4 percent of the development fund for Africa for health funding.

We are concerned that a 10-percent target really is not even sufficient for two reasons. One, AID's total spending under the development assistance to the rest of the recipient countries for health is 15.6 percent. Second, Africa's health needs are very, very great and, in fact, require more than 10 percent.

In the area of economic policy reform programs, Bread for the World is deeply concerned about the growing percentage of the development fund for Africa's resources being used for economic reform programs for a variety of reasons: There is growing evidence that the economic reform programs have a disproportionate effect on many groups of poor people; that they have tended to emphasize and promote an export-led development; and that these reforms are often designed by outside experts rather than through a consultative process which includes governments and affected populations.

We have some further concerns and recommendations which we have included in our written testimony and I urge the committee to reference the written testimony.

Let me just add that we do have some other concerns, and that is, first, in the area of human rights we are very concerned about the level of death and numbers of displaced people in Sudan and Somalia, and we would recommend to this committee that as it is looking at authorization for next year, economic support assistance and military financing to Sudan be halted in 1990 and 1991, and the same for Somalia because of the extreme level of human rights abuse and absence of peace in both countries.

We are also concerned that the development fund for Africa not be used as a model for all foreign aid assistance at this point primarily because it has not yet been proven. It was only used as a test for one region of the world. Most important, the policy language that needs to guide this fund to direct the spending has not, in fact, been incorporated into law.

I apologize for going over, but the last point although not our major point, is we are also concerned with the level of funding for the fund, and we would support a $550 million figure for the development fund in 1990 as recommended by the House Subcommittee on Africa.

Thank you very much.

[The prepared statement of Ms. Pauling follows:]

STATEMENT OF SHARON PAULING

Mr. Chairman, I am Sharon Pauling, Africa Policy Analyst with Bread for the World. Thank you for the opportunity to testify before the Foreign Relations Committee concerning U.S. assistance to sub-Saharan Africa through the Development Fund for Africa established in 1987.

Africa continues to experience a severe economic crisis. Rising debt burdens, a precipitous fall in commodity prices and wars and famines in some countries have all contributed to increased human suffering in the region. Over the past several years family incomes have declined sharply. Malnutrition has risen massively, food production has fallen relative to population, and the quality and quantity of health and education services have deteriorated. In many cases the slow decline of infant mortality and death from preventable, epidemic diseases has been reversed. Meanwhile unemployment and underemployment have increased. Famine and war have made millions of human beings refugees and displaced persons.

Africa's portion of the worldwide economic aid budget has declined. In 1984, Africa received 13.95% of worldwide economic aid. By 1987 Africa received 9.68% of the total economic aid budget.

Although the region has been afflicted by great hardships, no objective observer can fail to be impressed by the vitality and human creativity of the African people. Communities have devised their own solutions to the problem of meeting their own basic needs. Cooperatives and other self-help groups abound in many countries and examples of community action can be found in almost every village. Bread for the World believes that U.S. foreign assistance in the region should build upon the strengths and aspirations of the Africa people. Foreign assistance should support a development process that is participatory, environmentally-sustainable and self-reliant. The challenge confronting U.S. foreign assistance is to find ways in which U.S. resources can be used more effectively to facilitate the self-development of the African people.

In this context, we now discuss the role that we believe the Development Fund for Africa should play in promoting development in the region. Our concerns and recommendations will focus primarily on the quality of assistance under the DFA.

Bread for the World supported the establishment of the Development Fund for Africa in the 1987 Continuing Resolution for three primary reasons.

1) It would respond to the need for a significant amount of well targetted development aid to Africa, the world's poorest continent.

2) It would redress past disproportionate cuts in U.S. economic assistance to Africa.

3) It would be guided by the policy language from the proposed foreign aid authorizing bills of 1987, H.R. 3100 and S. 701, which outlined a development approach to Africa that was the most cost-effective, responsive and sustainable approach for U.S. foreign assistance.

This innovative approach was significant in the following ways:

a) It identified the many groups which constitute the "poor majority" of African countries and provided mechanisms for their participation in the development process.

b) It identified the critical role of women in the development of the African economy and provided guidelines for facilitating their participation.

c) It expanded and strengthened the efforts of U.S. and indigenous private agencies and outlined a clear role for them in assisting U.S.A.I.D. development programming to assure that funding is better targetted and more responsive.

d) It guaranteed a minimum of ten percent of the fund for critical sector priorities including health, natural resources and population, thereby assuring accountability and that these sectors would not continue to go underfunded.

e) It provided specific recommendations for the protection of vulnerable groups when policy reform or structural adjustment measures would be taken.

Unfortunately, the authorization bills with this important policy language did not pass. Our recommendation to provide a legally binding reference to Chapter 7 of Title VIII of H.R. 3100 (similar language in S. 701 passed in this committee) in the appropriations bills of 1987 and 1988 was not adopted. Continued absence of this vital policy language raises concern about the potential effectiveness of the fund and continued BFW support for the DFA. **We recommend that the committee adopt policy language similar to that now contained in H.R. 1510 to meet this concern.**

Has the Development Fund for Africa served the intention of the 1987 proposed foreign aid bill? I will focus my comments on three significant areas.

Participation and Consultation

Because there is no reporting requirement on the participation and consultation aspect of the fund, it is difficult to evaluate to what extent consultation with women and appropriate local indigenous organizations in all stages of the design and implementation of projects has been carried out or to what extent it may have had an impact on local programs. Larry Saiers, A.I.D.'s Acting Assistant Administrator for Africa, testified before the House Subcommittee on Africa that new consultation procedures have been set up, but did not discuss the nature or the results of these procedures. Neither has A.I.D. yet released any reports or evaluations it may have done of its first year's experience.

Bread for the World suggests to this committee that assessment of the effective use of Africa funds is hampered by the lack of adequate accountability and evaluation provisions. We urge this committee to require documentation on the nature and results of consultation with women and appropriate local indigenous African organizations and the impact of such consultations on development programs.

Earmarks/Minimum levels of Assistance for Certain Critical Sectors

The proposed 1987 foreign aid bills prescribed 10 percent earmarks (mandatory spending levels) for the critical sectors of health, natural resources and population. The appropriations bills for FY88 and FY89 prescribed the softer approach of requiring 10 percent targets. At both times, we requested an "earmark" for health, in particular, because based on the history of low level allocations to health funding, we feared that A.I.D. would not spend adequate funding without the stronger mandate.

Our fears have proven to be justified. In 1988, the health target was not reached. Only 9.5 percent of the total appropriated funds was spent on health funding, a total of $47.7 million. The same held true for the other critical sectors. Natural resources management accounted for 8.6 percent and population accounted for 6.4 percent of the total appropriated funds. For 1990 A.I.D. expects to allocate only 8.4 percent of the DFA for health funding.

A ten percent target for health funding is an extremely modest target for two reasons. First, health and child survival for 1989 are 15.6 percent of A.I.D.'s total spending under development assistance to the rest of recipient countries worldwide. Thus, a 10 percent target for Africa is extremely modest. Second, and even more important, Africa's health needs are great. Africa is the continent with the highest death rate among infants and children and the lowest life expectancy. African countries face serious threats to health, such as malaria, which affects over 100 million people in Africa, guinea worm disease, onchocerciasis or river blindness, and lack of access to safe water. Africa is the continent with the most severe AIDS problem, which is worsening. The recession and debt crisis of the 1980s have reduced the health budgets of African governments substantially, by 30 percent and even more, with severe damage to primary health care delivery systems. Yet U.S. health assistance to Africa has been reduced to a very low level in spite of these extremely pressing health needs.

Economic policy reform programs

Bread for the World is deeply concerned about the growing percentage of DFA resources being used for economic policy reform programs. We believe that aid should be used to promote sustainable development and aid poor people and not used to reward countries that implement specific policy reforms regardless of their impact on equitable development or the poor. We are concerned that policy reform programs have not promoted poverty alleviation and sustainable growth in many countries. In an era of rising malnutrition and cuts in spending for education, essential resources for health, education and other basic human needs have been redirected into economic reform programs. Growth cannot be sustained if the majority of people are poor and malnourished.

While we have sought documentation on the nature and effectiveness of A.I.D. sponsored reform programs since late February, A.I.D has still not released the "DFA Action Plan" which provides detailed evaluation of reforms in different countries. Therefore we can provide only a preliminary analysis based on the FY1990 A.I.D. Congressional Presentation (CP) and the testimony by Mr. Larry Saiers, A.I.D.'s Acting Assistant Administrator for Africa before the Africa Subcommittee of the House Foreign Affairs Committee.

According to the CP, between 1985 and 1988 AID funded "African Economic Policy Reform Programs" (AEPRP) in 16 countries at a cost of approximately $205 million. AID is requesting $55.0 million for the AEPRP for FY 1990. AID states in the CP that the purpose of these programs is to "rationalize economic activity and promote economic growth and employment." Most of these programs have been concerned with some aspect of agricultural liberalization (credit, marketing, agricultural subsidies etc.) and others have promoted reforms in industry, transport, export performance, administration and taxation.

According to Larry Saiers testimony, in the FY90 budget more than half of the DFA is targetted to ten "high-performing" countries. It is not clear either from the CP or Mr. Saiers testimony the criteria used to assess which countries are "good performers" and which ones are "bad performers." It appears that adherence to AID reform programs is the primary criterion used to evaluate a country's performance rather than the development impact of these programs. The CP concludes that successful programs have been implemented in Zaire and Mauritius (increasing industrial incentives and closing down inefficient firms), Mali (restructuring of the budget and reforming taxes), Uganda and Tanzania. They point to mixed or negative results in Guinea, Togo and Malawi and Zambia. In Mr. Saiers testimony he lists Ghana, Guinea, Madagascar, Malawi, Tanzania and Uganda as having demonstrated "solid performance." As a reward for their "solid performance" the DA and ESF for these countries rose 80% in 1988 over the average level of FY86 and FY87. Liberia, Somalia, Zambia, and Zaire are labeled as "lagging" in their reform programs and have had their aid levels reduced. AID is threatening to withdraw resources from Zambia unless they move more rapidly in implementing agricultural marketing reforms.

We lack the documents to assess the effectiveness of these particular programs and even A.I.D.'s assessments present certain contradictions. However, based on existing evaluations of various structural adjustment programs we have several concerns about the use of foreign aid resources to support economic policy reform programs:

1) **There is growing evidence that economic policy reforms have a disproportionally negative impact on many groups of poor people and often lead to inequitable economic growth.** We note that Mr. Saiers in his testimony discussed a recent World Bank report entitled "Africa's Adjustment and Growth in the 1980s" that concludes that structural adjustment programs are producing positive results in many African countries. Yet, the United Nations Economic Commission for Africa (ECA) has recently evaluated the World Bank report and concluded that it "inaccurately portrays Africa's difficult economic circumstances and the performance of the structural adjustment programmes that many African countries are implementing." They argue that the World Bank report contradicts earlier World Bank reports on adjustment, overlooks the severe social costs of adjustment and uses economic data that is selective and inconsistent.

In addition a recent study of the effects of structural adjustment programs in Ghana and Senegal by the staff of the Africa Subcommittee of the House Foreign Affairs Committee concluded that "structural adjustment has produced little enduring poverty alleviation and certain policies have worked against the poor." They found that while adjustment benefitted a minority of cocoa farmers in Ghana the real per capita income of the overwhelming majority of food farmers stagnated, with especially unfavorable consequences for women and children. In urban areas structural adjustment policies have increased unemployment and the costs of essential goods and services. Similar trends were detected in Senegal, where poverty has been aggravated by such policies as wage restraint and import liberalization.

2) Economic reform programs have tended to emphasize and promote an export-led model of development that jeopardizes the sustainability of growth by undermining food production, degrading the environment and increasing vulnerability of countries to changes in the international markets. Recent studies by the International Fund for Agricultural Development (IFAD) and Per Pinstrup-Anderson, Professor of Economics at Cornell University underline the negative effects of an over-emphasis on export-led growth on food crop production, environmental sustainability and regional and national self-reliance.

3) These reforms are often designed by outside "experts" rather than through a consultative process which include governments and affected populations. We are encouraged by A.I.D.'s statement in the CP that they are studying the possibility of designing these programs as a "more collaborative" process. We are concerned however that these programs do not include more than a token participation by government officials and non-governmental organizations representing affected populations.

We have several recommendations concerning policy reform programs:

1) The selection, design and implementation of policy reform programs should occur through a consultative process which

includes representatives of governments and non-governmental organizations representing affected populations.

2) Programs should be designed to aid critical social sectors and the poorest people. Reform programs should be designed to reduce, not increase, income disparities. Investments in health, education, job creation, credit for small farmers, and micro-enterprise are urgently needed and are the basis for sustainable growth. The Africa bill (1510) introduced by Rep. Wolpe requires economic policy reforms to include provisions to protect vulnerable groups and long-term environmental interests.

3) A.I.D should be held accountable for the success (or failure) of policy reform programs in encouraging poverty alleviation and equitable economic growth. Documentation should be required on the effects of policy reform programs on different groups of poor people and these programs' impact on sustainable development.

In closing, I wish to make three points of general concern about the fund:

1. Human Rights

We are concerned about the effective use of U.S. economic aid provided in the context of escalating regional wars. Economic aid seldom stimulates economic growth or development when large amounts of country resources and foreign aid are contributing to destructive regional and civil wars.

Bread for the World has witnessed with growing dismay the alarming numbers of deaths and the numbers of people who have been forced to flee their homes due to the conflict between the opposition groups and the governments of Sudan and Somalia. As we have already stated earlier in our testimony, foreign aid should promote peace, security and sustainable development. In Sudan, these depend in large part on addressing the problems associated with the traditional north-south division in that country, specifically the need to assure religious freedom and equitable economic development. In Somalia these depend on addressing long standing systemic human rights abuse and equitable economic development.

Bread for the World recommends that economic support assistance and military financing to Sudan be halted in 1990 and 1991, and unreleased funds from previous years be withheld, unless certification is submitted by appropriate committees and subcommittees that certifies demonstrable progress in relief deliveries to areas controlled by the government and in negotiations with the SPLA toward a peace accord. We also urge that economic support assistance and military financing to Somalia be halted.

2. The DFA as a model for the U.S. foreign assistance program.

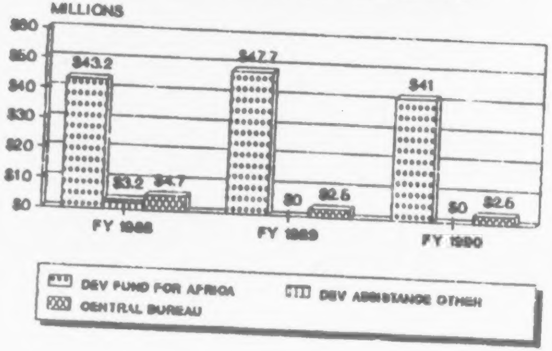
We would caution against any premature application of the DFA as a model for the U.S. foreign assistance program. The fund has not yet proven itself on a trial basis for one region. It is not yet guided by the necessary policy language that was incorporated in S. 701, previously passed by this committee, and is currently in H.R. 1510. Neither has A.I.D. had sufficient experience with this pilot to make recommendations for its replication in other regions.

3. Funding Level for the DFA.

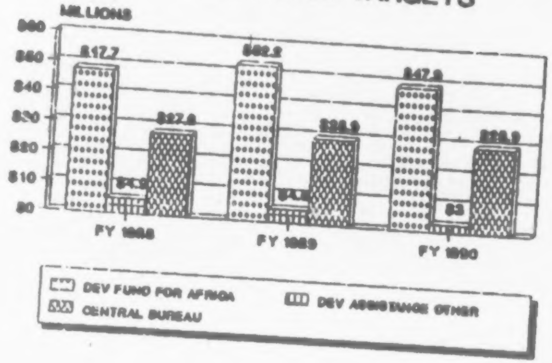
We wish to offer one basic concern about the quantity of the fund. It is that Africa, as the poorest continent requires greater economic assistance. We support $550 million for the DFA for 1990 with subsequent long-term increases.

Thank you for this opportunity to testify on the Development Fund for Africa.

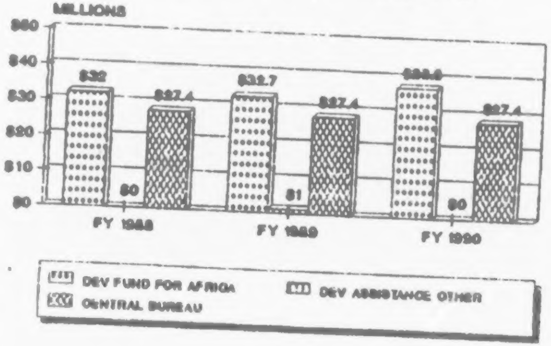
Natural Resources Management
FY's 88/89/90 TARGETS



HEALTH
FY's 88/89/90 TARGETS



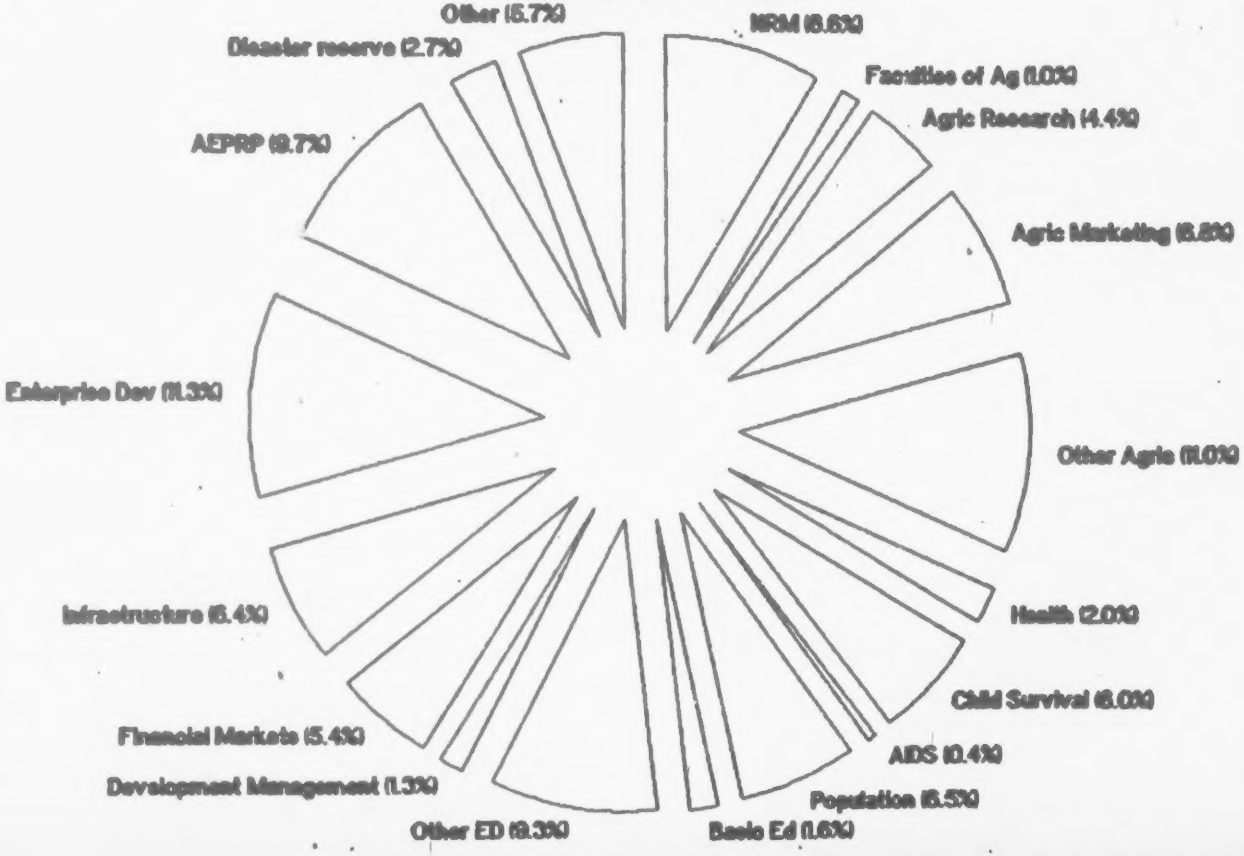
POPULATION
FY's 88/89/90 TARGETS



SOURCE: A.I.D. Africa Bureau 1989

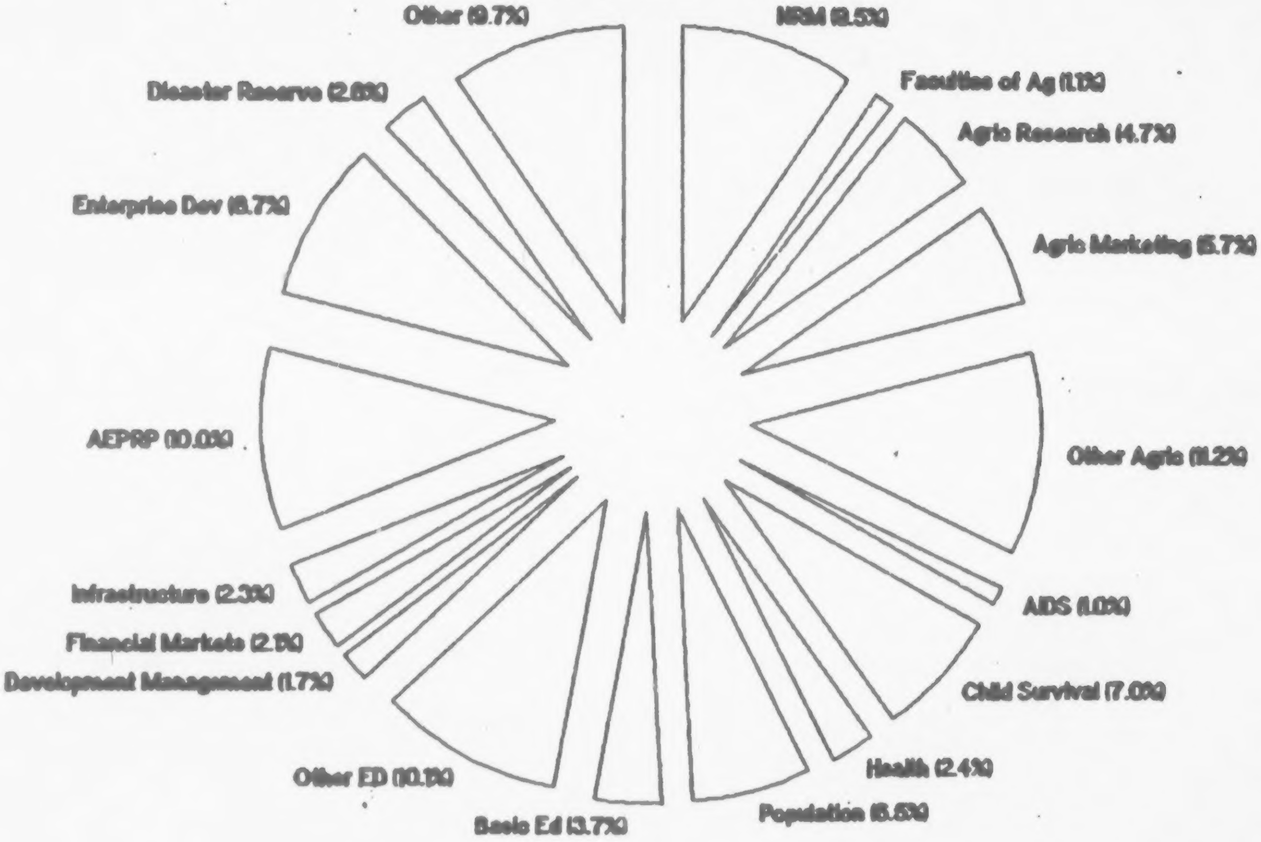
Development Fund for Africa

Sectoral Allocations - FY 1990



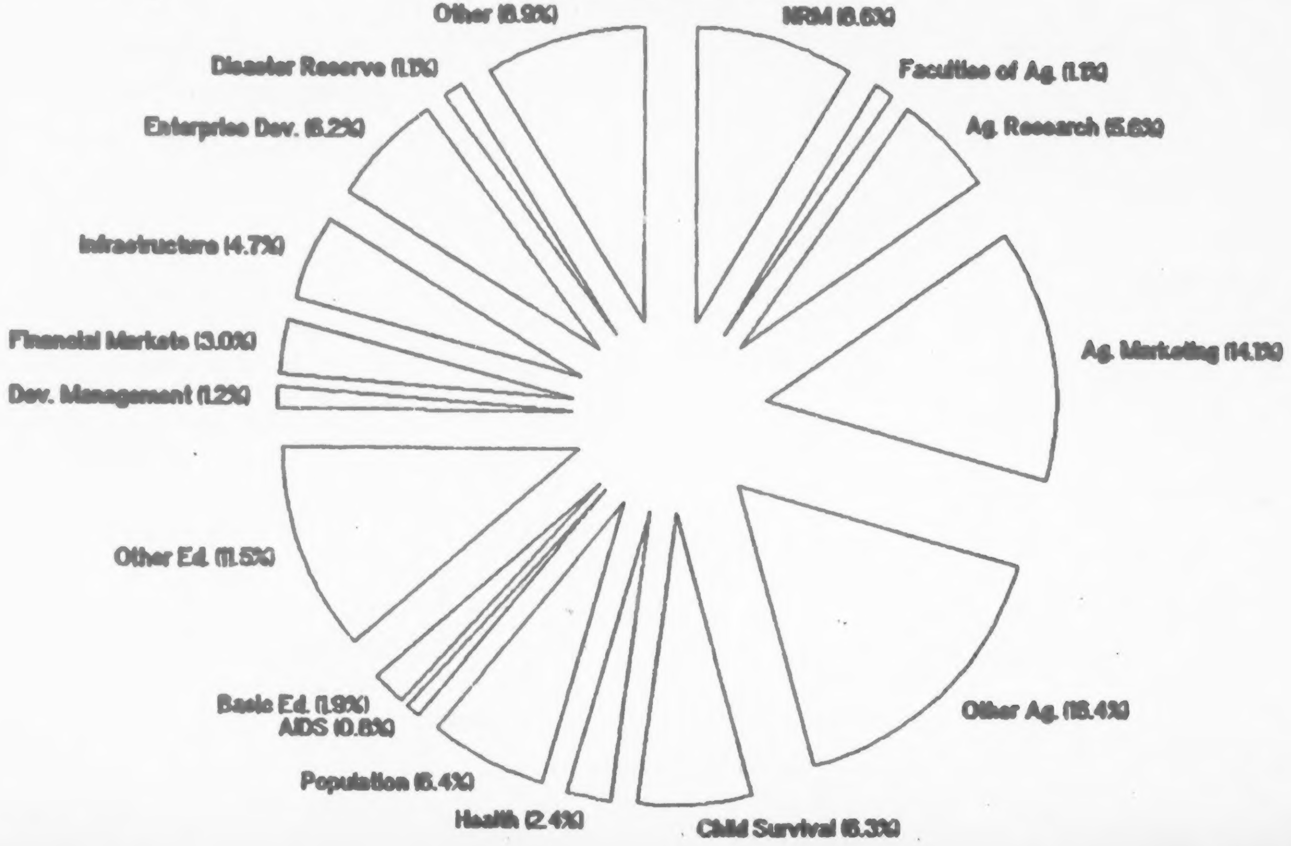
Development Fund for Africa

Sectoral Allocations - FY 1989



Development Fund for Africa

Sectoral Allocations - FY 1988



Senator SANFORD. Do not worry about going over. We appreciate your being here and appreciate your care in preparing your testimony.

Senator Pressler.

Senator PRESSLER. I would just like to say that I appreciate the testimony of the witnesses. I shall read the portions of them that I have missed.

I have a particular interest in seeing entrepreneurship developed in small ways, small farms, small businesses, and I have a feeling that many of the economies in Africa have been state controlled, or there was a belief in the Keynesian theories, which sometimes may have their place. I have become fascinated with what I saw in Vietnam last year. What is left there are motor pumps still owned by some of the farmers, small projects, not the macroprojects.

I do not know whether our aid is focused enough in that direction or whether it is a possible dream. Maybe it does not even apply in some of these countries, but I hope we see more of that. I do not know whether anybody wants to comment on that or not.

Senator SANFORD. Senator Simon.

Senator SIMON. Thank you.

You point out that the Development Fund for Africa is a brand new creature, where in theory we are planning greater flexibility. In your statement you say because there is no reporting requirement on the participation and consultation aspect of the fund.

I would be interested in having you work with my staff in terms of what you think there ought to be there.

Second, on the basis of just 1 year—and I realize this is a short time to make a decision—but is the basic objective of greater flexibility serving this Nation well and serving the developing countries of Africa well?

Ms. PAULING. We are particularly concerned about how the basic objective would serve poor people in Third World countries, particularly in African countries that are struggling to self-develop.

As I stated in my testimony, we think it is very important that the targets, if not earmarked, at least be met and the consultation that seems to be agreed to by most parties actually happen. When Larry Saiers testified not too long ago in March in front of the Foreign Affairs Committee, he indicated in his testimony that there were some procedures that were laid out for consultation but did not have yet any of the data of the results of those.

So, again, Mr. Simon, it is very difficult for me to comment because I think that area is very crucial to the success of programs that should support environmentally sustainable and equitable development. If the affected groups and vulnerable groups are not involved in the design and implementation of those projects and programs, then I would have to say that until that happens we need to be very cautious about how we continue.

Senator SIMON. But if I were to ask you specifically do we continue the development fund for Africa or go to a more categorized approach, I gather your answer is "Yes, continue, but." Is that the answer?

Ms. PAULING. That is fair.

Senator SIMON. Thank you, Mr. Chairman.

Senator SANFORD. Thank you very much. I am pleased to see that Senator Robb of Virginia has joined us.

Senator Robb.

Senator ROBB. Mr. Chairman, I have no questions at this time. I look forward to reviewing the testimony. I have been at other meetings, and if I have any additional questions I will submit them in writing.

Thank you.

Senator SANFORD. Thank you.

Mr. Hellinger.

Mr. HELLINGER. Senator, if I may intercede I would like to respond to Senator Pressler's question about the private sector. May I do so?

Senator SANFORD. Oh, yes.

Mr. HELLINGER. I think you were asking that question, were you not?

Senator PRESSLER. Yes, I was.

Mr. HELLINGER. First I would like to tell you that I and many of my colleagues share your support for the Inter-American Foundation, as we do for the African Development Foundation. We think they are doing excellent work overseas.

As far as private sector activity is concerned, our concern is not so much the abandonment of public sector programs that are very inefficient. Our concern is that too often we abandon them for large-scale private sector activities which are equally out of touch with local realities.

Our coalition has mentioned to the House Foreign Affairs Committee that in things like a private sector revolving loan fund that they would put in place, we would like to see them act to focus on small scale producers to create a more even playing field so that small producers have an equal chance vis-a-vis their larger counterparts.

Senator SANFORD. Thank you very much.

Senator PRESSLER. Thank you.

Senator SIMON. I have no further questions.

Senator SANFORD. Well, I have already introduced Mr. Douglas Siglin, but since two Senators have arrived since that introduction I would like to add that Inter-Action means the American Council for Voluntary International Action, and we thank you also for leaving your board meeting in Boston to come back for the purpose of testifying. Thank you very much for being here.

STATEMENT OF DOUGLAS SIGLIN, DIRECTOR, PUBLIC POLICY, INTERACTION, WASHINGTON, DC

Mr. SIGLIN. It is a pleasure, Senator. Thank you.

Mr. Chairman, members of the committee, thank you for inviting me to testify today. I am here on behalf of Inter-Action, which is indeed the American Council for International Voluntary Action. It is a coalition of more than 100 private nongovernmental U.S. agencies engaged in humanitarian development, disaster relief, and refugee protection work overseas.

As Senator Sanford noted, I have just within the hour arrived from Boston where our annual meeting is going on. I am happy to note that we had representatives from more than 50 nongovernmental organizations from Africa, Asia, Latin America, and the Caribbean at our annual meeting this year.

Taken together, the agencies involved in Inter-Action are active throughout the world and receive more than $1.5 billion annually in voluntary gifts and contributions from many millions of Americans.

Nongovernmental organizations which do this kind of humanitarian work in this country are generally known as private voluntary organizations or PVO's. While the activities of Inter-Action member PVO's vary widely, an increasing number are interested in promoting the long-term development of people in the developing world through participatory community level programs in child survival, basic health, basic education, sustainable agriculture using appropriate technology, small and microenterprise development, and so on.

In the short period of time I have today, I want to explore with you a narrow agenda; that is, a few thoughts on the nature of the relationship between the private development agencies and programs in the U.S. Agency for International Development.

The record is clear that development cooperation between PVO's and AID has grown significantly over the past 15 years, partially as a result of the encouragement of this committee. This kind of cooperation makes manifest President Bush's vision of public and private agencies working together to solve problems.

Well before President Bush took office, Congress was encouraging this partnership through the Foreign Assistance Act, section 123, which among other things requires that a certain percentage of development assistance funds be made available by AID to assist the activities of PVO's.

The relationship has been a good one, beneficial for both AID and many PVO's as well as the recipients of our aid. Because of the cooperative relationship which exists, many American PVO's and many overseas affiliates of the American PVO's have gained valuable development experience.

To give you one example, many people do not think of the YMCA as an actor in development assistance, yet local YMCA's around the world have been able to develop effective job training and other assistance programs as a result of their relationship with AID.

While in aggregate terms cooperation between AID and the PVO's has risen over the past decade, I believe some important qualitative changes have been made as well. One of these has been the professionalization of PVO's. We are more effective development planners and implementors than we were a decade ago.

Perhaps because of that, the nature of the relationship with AID has been changing as well. I am told that when AID began systematically soliciting the working relationship with PVO's following the new directions legislation of 1973, PVO programs which drew upon their own special strengths were encouraged even if they did not exactly match AID's own short-term agenda.

In other words, AID took a long-term inclusive view of development efforts. Today, the relationship seems to be far more contractual; that is, PVO's are often providing contract services to AID projects designed by AID staff according to AID-identified priorities.

It is my belief that something has been lost here. A contractual relationship is called for in many cases where the skills and priorities of the PVO mesh with the priorities of AID. However, in cooperating with AID primarily in the role of a contractor, we lose the richness of the private voluntary effort.

Furthermore, we risk not being able to bring to this Nation's development efforts our most important strengths, and those are commitment to and real experience with grassroots people-oriented development and commitment to nongovernmental solutions to problems.

Mr. Chairman, here is the main point. PVO's are fundamentally different than other development actors. We bring our own resources, our own contacts, our own commitments, our own ideas, and our own philosophies to the development assistance table. The relationship which we have developed with AID in the past 15 years is valuable and productive, but it is incomplete.

The world is changing. Our understanding of development is changing. The important relationship between private organizations and AID is moving in the wrong direction. It should not be solely a contractual relationship on the often narrow terms of government-to-government assistance. It should be a relationship which encourages diversity, new ideas, experimentation.

President Bush's inaugural address idea about the Government cooperating with private agencies, sometimes leading, sometimes being led as relevant here. I will say parenthetically I think it is relevant most everywhere because it is only commonsense.

Some of us, Mr. Hellinger included, have envisioned the day when cooperation between the government and the PVO's will be handled through a joint foundationlike structure, more focused on meeting long-term development problems and less dependent on the exigencies of bilateral government-to-government relationships.

We do not think that day has yet arrived. However, in the near term we believe that within the present AID structure the relationship could be significantly strengthened, improved upon, made more effective in everyone's interest through the creation of a permanent, high-level center for voluntary cooperation within AID with a strong advisory board made up of PVO representatives which would cooperatively discuss, design, and evaluate the policy parameters of AID–PVO cooperation and the nature of AID–PVO projects.

We believe that such a center could if designed and managed in a truly cooperative fashion by AID and PVO's, with the benefit of active interest and involvement of this committee and its counterpart in the House, significantly enhance the ability of the American people to get development assistance to the people and places it is meant to serve.

Creative thinking, real cooperation, and some risktaking are necessities in any partnership, and this would be no exception. Both the Congress and the President appear to have this kind of cooperation in mind. We hope that a center for voluntary cooperation could be created in AID to build on the good relationship that we have already developed.

If so, PVO's look forward to working with AID and the Congress to make the nation's development assistance more effective.

Thank you.

[The prepared statement of Mr. Siglin follows:]

STATEMENT OF DOUGLAS SIGLIN

Mr. Chairman and members of the Committee, thank you for inviting me to testify before you today. I am here on behalf of InterAction -- the American Council for Voluntary International Action -- a coalition of more than 100 private US agencies engaged in humanitarian development, disaster relief and refugee protection work overseas. Taken together, the agencies involved in InterAction are active throughout the world, and receive well over 1.5 billion dollars annually in voluntary gifts and contributions from many millions of Americans.

Non-governmental organizations which do humanitarian work are generally known in this country as "private voluntary organizations", or PVOs. While the activities of InterAction member PVOs vary widely, many are interested in promoting the long-term development of people in the developing world through participatory, community-level programs in child survival, basic health, basic education, sustainable agriculture, using appropriate technology, micro-enterprise development. My friend Steve Hellinger has just outlined several of the concepts underpinning these programs, and I want to support what he has said. One of the most important aspects of PVO programs is the extent to which American PVOs are increasingly working with affiliates or other non-governmental organizations overseas -- a trend which I believe is essential and must be encouraged.

In the short period of time I have here today, I want to share with you a few thoughts on the nature of the relationship between these private development agencies and programs and the US Agency for International Development.

The record is clear that development cooperation between PVOs and AID has grown significantly over the past fifteen years -- partially as a result of the encouragement of this Committee. This kind of cooperation makes manifest President Bush's vision of public and private agencies working together to solve problems. But well before President Bush took office, Congress was encouraging this partnership through the Foreign Assistance Act's section 123, which, among other things, requires that a certain percentage of development assistance funds be made available by AID to assist the activities of PVOS and cooperatives.

The relationship up to now has been a good one, beneficial for both AID and many PVOs as well as for the recipients of the cooperative assistance. Because of the cooperative relationship which exists, many American PVOs -- and many overseas affiliates of American PVOs -- have gained valuable development experience and thus have become more capable development assistance planners and implementors. Let me give you one example. Many people do not think of the YMCA as an actor in development assistance, yet local YMCAs around the world have been able to develop effective job training and other assistance programs as a result of their relationship over the past decade with AID.

While in aggregate terms cooperation between AID and PVOs has risen over the past decade, I believe some imporant qualitative changes have been made as well. One of these has been in thge professionalization of the PVOs. We are more effective development planners and implementors than we were a decade ago. Perhaps because of that, the nature of the relationship with AID has been changing as well. I am told that when AID began to systematically solicit a working relationship with PVOs following the "New Directions" legislation of 1973, PVO programs which drew upon their special strengths were encouraged, even if they did not exactly match AID's own short-term agenda. In other words, AID took a long-term, inclusive view of development efforts. Today, the relationship seems to be far more contractual -- with PVOs often providing "contract" services to AID projects designed by AID staff according to AID-identified priorities.

It is my belief that something has been lost. A contractual relationship is called for in many cases, where the skills and priorities of a PVO mesh with the priorities of AID. However, in cooperating with AID primarily in the role of a contractor, we risk losing the richness of the private voluntary effort. Furthermore, we risk not being able to bring to this nation's development efforts our most important strengths -- a commitment to, and real experience with, grassroots, people-oriented development, and a commitment to non-governmental solutions to problems.

Let me give an example of each. It is appropriate that this government be concerned with large questions of growth-inducing economic policies, of debt relief, and the like, but it is also appropriate that it be concerned with assisting people to take advantage of the opportunities that economic growth can offer.

The people who sustain and direct our organizations, and with whom we are in constant contact, tell us over and over that they want the US government's assistance to reflect their own values. They want the United States to be involved in providing opportunity for all sectors of society. They want direct action for the alleviation of the worst cases of poverty, and they want effective, sustainable solutions to the problems of malnourishment, disease, and illiteracy. No matter how important the economic climate of a nation is, they are not willing to see all US development assistance go into promoting macroeconomic growth and trickle-down development which may or may not ever trickle down. And yet AID, as a government agency, is practically constrained from the kind of people-to-people development that actually reaches the poor. PVOs can and do design and carry out effective programs to actually reach the poor and involve them in creating opportunities for themselves.

Similarly, PVOs have a special strength in working with local, indigenous, non-governmental organizations, formed so that people can promote their own development. Much of this country's success has been due to the evolution of private associations to acheive important public purposes. If I remember correctly, de Tocqueville commented on the proliferation of such societies more than 150 years ago. These associations formed an institutional framework which allowed individuals to promote their own development.

There is no reason why the concept of development by voluntary association should not be just as valid for less developed countries in 1989 as it was in this less-developed country in the nineteenth century. There is an important movement in this direction throughout the developing world, with local non-governmental organizations attempting to promote the development of their members, families and peers. I have just this morning come from Boston, where I was attending a meeting of grassroots development-oriented non-governmental organizations from all over the world. It should be a fundamental thrust of US foreign assistance to assist these fledgling private groups to foster development among themselves and their countrymen and women. This is not only one of the surest means of alleviating poverty, but is also is the very essence of promoting pluralism. American PVOs, with their associates and affiliates, are an invaluable intermediary in carrying out such a program.

Mr. Chairman, here is my main point. PVOs are fundamentally different than other development actors. We bring our own resources, our own contacts, our own commitments, our own ideas and our own philosophies to the development assistance table. The relationship which we have developed with AID in the past fifteen years is valuable and productive, but it is incomplete. The world is rapidly changing, our understanding of development processes is improving, but the important relationship between private organizations and AID is moving the wrong direction. It should not be solely a contractual relationship on the often-narrow terms of government-to-government assistance. It should be a relationship which encourages diversity, new ideas, experimentation. President Bush's inaugural address thought about the government cooperating with private agencies, sometimes leading, sometimes being led is relevant here. In fact, I think it is relevant most everywhere --it is only common sense.

Some of us, Mr. Hellinger included, have envisioned a day when cooperation between the US government and the private development agencies will be handled through a joint foundation-like structure more focussed on meeting long-term development problems and less dependent on the exigencies of bilateral government-to-government relationships. We do not think that day has arrived. However, in the nearer term, we believe that within the present overall AID structure, the AID-PVO relationship could be significantly strengthened --- improved upon -- made more effective in everyone's interest -- through the creation of a permanent, high-level Center for Voluntary Cooperation within AID, with a strong advisory board made up of PVO representatives, to cooperatively discuss, design, and evaluate the policy parameters of AID-PVO cooperation and the nature of AID-PVO projects.

We have been discussing such a Center with staff in both the Senate and the House, and several InterAction agencies have written Chairman Pell a letter asking that provisions for such a Center be included as a part of this years foreign assistance authorization bill. I ask that the letter be inserted into the hearing record.

We believe that such a Center could, if designed and managed in a truly cooperative fashion by AID and PVO representatives -- and with the benefit of active interest and involvement of this Committee and its counterpart in the House -- significantly enhance the ability of the American people to get development assistance to the people and places it is meant to serve.

Creative thinking, real cooperation, and some risk-taking are necessities in any true partnership, and this would be no exception. But both the Congress and the President appear to have this kind of cooperation in mind. We hope that such a Center for Voluntary Cooperation can be created at AID, to build on the good relationship we already have achieved. If so, PVOs look forward to working with AID and the Congress to make our nation's development assistance efforts more effective.

Senator SANFORD. Thank you very much.

Senator Pressler.

Senator PRESSLER. I have no questions. Thank you. We appreciate the testimony.

Senator SANFORD. Senator Robb.

Senator ROBB. Thank you. No questions.

Senator SANFORD. Let me ask that you elaborate a bit on the foundationlike structure and then you shift gears and talk about AID setting up a center. Is this foundationlike structure to be the PVO's, or do you want this to be another governmental agency that you have to plug into?

Mr. SIGLIN. Senator, my understanding is that the idea of a foundation for development assistance was in fact generated by this committee quite a long time ago and has had new life with the publication of a book by Steve Hellinger, Doug Hellinger, and Fred Reagan called "AID For Just Development," which I recommend to you.

I think Steve could probably talk to the foundation better than I could. My comment is only that perhaps we are not yet ready to move to that point, even after all these years of discussion. We are willing to settle for a structure in the meantime within the AID agency which would hopefully move toward that end.

Senator SANFORD. Now you have a letter you wrote to the chairman that you want in the record?

Mr. SIGLIN. I do have a letter to Chairman Pell from several of our agencies requesting consideration of such a center, and I would like to ask that it be submitted for the record.

Senator SANFORD. We will put it in the record then at this point.

Mr. SIGLIN. Thank you.

[The information referred to follows:]

American Council for Voluntary International Action

May 7, 1989.

The Hon. Claiborne Pell,
Chairman, Committee on Foreign Relations, United States Senate, Washington, DC.

As you know, over the past decade the relationship between the Agency for International Development and the American private voluntary organizations has grown significantly closer, PVOs today work closely with AID missions around the world, as well as with AID headquarters, on a wide variety of development activities. We believe that the relationship has been generally a good one, beneficial for both parties as well as for the recipients of AID's assistance.

However, we believe that there is yet room for significant improvement in the present relationship, productive as it is. PVOs bring special strengths to U.S. development assistance, and the nature of the PVO-AID relationship must be fundamentally different than the relationship AID has with other contractors. Many of us envision a day when cooperation between the U.S. government and the private development agencies will be handled through a foundation-like structure more focussed on meeting development needs and less dependent on the exigencies of bilateral political relationships.

In the nearer term, we believe that within the present overall AID structure, the AID-PVO relationship could be significantly improved upon through the creation of a permanent, high-level structure within the agency to cooperatively discuss, design, and evaluate the parameters of AID-PVO cooperation.

InterAction represenatives have been working for several weeks with your colleagues in the House to design such a Center for Voluntary Cooperation within AID. Chairman Fascell's draft authorization bill sets up a framework through which PVOs and the official U.S. government assistance agency can work together to create a stronger, more mutually-beneficial relationship. Though we represent a wide variety of viewpoints in regards to the House's overall approach to authorization, we are in agreement that the Center for Voluntary Cooperation represents a major step forward.

We understand that the InterAction public policy director, Douglas Siglin, has been invited to testify before yor Committee on May 8 about the AID-PVO relationship, and that he will discuss the Center concept. He is also readily available to you and your staff to discuss the concept in more detail.

For many years you have been a constant supporter of private voluntary agencies, and we are deeply grateful of your efforts on our behalf. Your encouragement of closer cooperation between the PVO community and AID has, we believe, led to more effective development assistance. Now we ask that you continue your leadership by sponsoring the inclusion of provisions similar to Chairman Fascell's in the Senate Foreign Assistance Authorization Bill.

Sincerely,

The following private voluntary organizations have signed on to the preceding letter to Chairman Pell: ACCION International; ADRA International; End Hunger Network; Foundation for the Peoples of the South Pacific; Freedom From Hunger; Hellen Keller International; HIAS (Hebrew Immigrant Aid Society); Institute of Cultural Affairs; International Institute of Rural Reconstruction; Mercy Corps International; National Council of Negro Women; PACT (Private Agencies Collaborating Together); Rodale International; United Israel Appeal and World Relief.

Senator Sanford. Let me ask you about the Global Poverty Reduction Act, and what you know about that bill and what you think of it.

Mr. Siglin. There is legislation which has been introduced in both the House and the Senate whose title is the Global Poverty Reduction Act. As I understand it, it has a great number of cosponsors in both bodies. It would seek, as I understand it, to ask the President to set goals and objectives and ways of measuring our progress toward development, and it suggests some areas in which that could be done.

My view of the Global Poverty Reduction Act is that while I applaud the intent of it which is to promote the concept of goals and measurable targets, ways we can achieve progress, it would be a very difficult thing to do in practice because countries are very diverse, and development assistance is necessarily very diverse.

Even within countries, areas are diverse and it would be very difficult, I think, to have any reasonable expectation of achieving worldwide globally the same sort of targets.

Now further, I would say it seems to me there is a problem with targets, and that is that particularly in this world sometimes targets cannot be made for reasons beyond our control. We know that the move grave crisis facing the Third World today perhaps is debt. U.S. development assistance accounts for not making much progress on that end.

If you do not meet targets, you tend to lose heart, and I think the worst thing we could do is to lose heart in this, which is a very long process.

Senator **Sanford**. Thank you very much, Mr. Hellinger.

I might take another minute to ask you to comment on the Global Poverty Reduction Act and also maybe on the foundation which you have had a lot to say about. If you would touch on those two points.

Mr. **Hellinger**. Sure. Let me speak about the foundation first, and let me say that I am in full agreement with Doug's testimony, as well as Sharon's and Tom's.

The foundation idea obviously is not new, because the Inter-American and African Development Foundations are models and have operated very well.

We feel ultimately that gives U.S. PVO's the independence from State Department and AID that it needs to operate effectively. Also, that foundation can set criteria and standards, and I think we can get back to where we were several years ago. I agree with Doug on that.

I would like to see, by the way, the PVO center have a couple of extra features that are not existent in the House Foreign Affairs Committee draft. I think that the U.S. PVO community should play a role that Inter-Action is playing in Boston right now, making sure that Congress and AID hear the views of Third World NGO's and not just on PVO policy, as is in the bill in the House, but on broad economic policy in general.

As far as the Global Poverty Reduction Act is concerned, we have nothing against it. It is nice to have goals, but we must remember that development assistance is but one variable in development. You cannot quantify the success of development assistance in that way. Hopefully aid will stimulate a process in the Third World, and that is the way it is looked at overseas. In the Third World they do not think of reaching certain arbitrary goals. They think of developing the capacity at the local level and all levels to generate a sustainable development.

So, all in all, I do not think it is a bill that is going to do any harm, but I do not think it is directly relative to the concerns of the Third World.

Senator **Sanford**. Well, we sometimes have a lot of bills that can do harm. [Laughter.]

Who is sponsoring the Global Poverty Act? Where did it come from?

Mr. **Hellinger**. An organization called Results has been very influential in that, and I know there is a lot of support in the House and the Senate but I know nothing more than that. Maybe other people here do.

Senator **Sanford**. Senator Simon.

Senator **Simon**. I have no further questions.

Senator **Sanford**. Senator Pressler.

Senator **Pressler**. No questions.

Senator **Sanford**. Senator Robb.

Senator **Robb**. No questions.

Senator **Sanford**. If not, let me thank you very much for your careful preparation of your testimony. We will have this in the record at the appropriate place, and if questions occur to other members of the committee, if we may we would ask you to respond to those other questions.

Again, thank you very much for taking the time to be here.

I would like now to ask the panel on Middle East security assistance, Mr. Thomas Dine and Mr. George Moses, to please come forward to the witness table.

Senator **Simon**. Mr. Chairman, unfortunately I have a 3:30 meeting, and I am not going to be able to listen to our witnesses here on the Middle East as well as on the Greek-Turkish situation. I am very much interested in both. I hope to be coming back and forth.

Senator **Sanford**. Would you like to ask a question now?

Senator **Simon**. I will hold off, but obviously this is an area of tremendous importance to this Nation and to the world. I regret that I am going to have to leave.

I would add one of our witnesses is getting famous, however, because I was at a town meeting in the old town of Grafton, IL. It was about 1,200 or 1,400, and one of the people present said is it true that you are a friend of Tom Dine's.

Senator **Sanford**. That probably helps you; does it not?

Senator **Simon**. I don't think the particular questioner was particularly in favor of it, but I was very pleased to tell him that I am a friend of Tom Dine's.

Senator **Sanford**. All right, we will start with Tom Dine. Mr. Dine is the executive director of the American-Israel Public Affairs Committee; and Mr. George Moses is senior consultant for the National Association of Arab Americans.

We will start with Mr. Dine and then go to Mr. Moses.

STATEMENT OF THOMAS A. DINE, EXECUTIVE DIRECTOR, AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE, WASHINGTON, DC; ACCOMPANIED BY, ESTER KURZ, LEGISLATIVE DIRECTOR

Mr. **Dine**. Mr. Chairman, thank you for the opportunity to appear before this distinguished committee. With me is Ester Kurz, our legislative director.

Before beginning my testimony I want to express my deepest appreciation to you and members of the committee for your understanding and consistent backing of close United States-Israel relations and Israel's security and well-being.

AIPAC supports the fiscal year 1990 foreign aid program of the United States, especially the requested levels of assistance for the two Camp David countries, Israel and Egypt and, I might add, to other important countries to the United States such as the Philippines.

I urge this committee to authorize favorably $3 billion in economic and military aid to Israel for the following reasons. First is the record of Israel's accomplishments in 41 years of modern statehood. American aid is a critical part of this internationally acknowledged success story. Our assistance to Israel has turned out, in fact, to be one of the most cost-effective investments that the United States Government makes to further our position abroad.

Second, the United States and Israel are partners in an ongoing search for peace. Israel's elected leadership recognizes that the maintenance of the status quo between Israelis and Palestinians and Israel and its Arab neighbors is not in Israel's national interest.

A political solution among the parties to the Arab-Israeli conflict must be found. Aid to Israel moves this process forward. In this regard, Israel's foreign minister, Moshe Arens, and defense minister, Yitzak Rabin, will be here in less than 2 weeks to suggest details to further the Shamir election initiative of last month.

Third, the United States and Israel are strategic partners in the Eastern Mediterranean, the Middle East, and elsewhere. It is in this area that the Washington-Jerusalem relationship is deepening on a steady basis, both countries having augmented each other's military postures through such cooperation.

In that regard, the VOA relay station scheduled to be built in Israel in accord with a bilateral agreement signed by the two countries in 1987 is an important part of that strategic relationship and deserves continued U.S. funding in fiscal year 1990.

Fourth, the United States is working closely with Israel on its economic recovery program. Israel is striving today to go beyond stabilization and is addressing the underlying structural changes required to sustain economic growth.

For 3 consecutive years Israel has held the line on inflation. Single-digit inflation in 1989 is a possibility. Finance Minister Shimon Peres is pursuing several reform efforts along these lines.

Fifth, one of these is cutting the defense budget by nearly 20 percent over a 2-year period, but in doing so Israel's military forces plus weaponry and supplies are decreasing. Israel's margin of safety at the same time is narrowing owing to Soviet, European, Chinese, North and South American arms sales to Israel's neighbors. Syria, Iraq, Jordan, Libya, and Saudi Arabia continue their military buildups. Israel, working with the United States, is trying to deal with the plethora of new weapon systems now in the region. American foreign military sales aid to Israel has become more important than ever.

On this note, Mr. Chairman, I would like to point out developments that have taken place in the Middle East in the last few years that threaten Israel's security. At the top of the list is the issue of chemical weapons: Iraq's successful use of chemical weapons in its war with Iran; Iraq's use of chemical weapons against its own Kurdish population; Syria's development of chemical warheads for its surface-to-surface missiles; and Libya's construction of a large chemical weapons facility. All of these raise serious questions about what the spread of chemical weapons might mean for the security interest of Israel as well as those of the United States.

While the Bush administration has undertaken a number of useful steps regarding chemical weapons arms control, more must be done on an urgent basis for with every passing day civilians in Israel and elsewhere are increasingly threatened by the spread of chemical weapons and possible attack either by terrorists or by belligerent states.

Accordingly, congressional initiatives designed to prevent the spread and possible use of chemical weapons are critical. I commend this committee, especially Chairman Pell and ranking member Senator Helms, for their leadership roles on this issue.

Without here analyzing the pros and cons of pending legislation before the committee—and I know this committee will be receiving testimony tomorrow on this issue—allow me to emphasize that the United States needs to be taking the lead in dealing with this growing threat by enacting new legislation. Among other things, such legislation must provide sanctions against nations that use chemical weapons and against companies and individuals that aid the proliferation of these weapons.

These efforts are but the first steps that the United States should take to deal with the growing chemical weapons threat to the security of the United States and friends such as Israel.

More must be done about this very serious problem, and the sooner the better. Chemical weapons must not come to be viewed in the Arab world and the Third World in general as the weapons of the future.

In short, Mr. Chairman, I come before you this afternoon, in these troubled times in the Middle East, to urge this committee to fully fund aid to Israel. The United States foreign assistance program helps to maintain Israel's qualitative military edge, keeps Israel on the road toward economic recovery and growth, and underpins Israel's physical and psychological security as that democratic ally of ours searches for direct negotiations and a secure peace with its neighbors.

Thank you.

[The prepared statement of Mr. Dine follows:]

STATEMENT OF THOMAS A. DINE

Thank you, Mr. Chairman for the opportunity to testify before this distinguished Committee on behalf of aid to Israel. Appearing with me is Ms. Ester Kurz, AIPAC's Legislative Director. The American Israel Public Affairs Committee (AIPAC) appreciates the opportunity to express its views on the proposed Foreign Assistance Act for FY 1990 and the importance to the United States of relations with Israel.

AIPAC is a domestic organization of American citizens who value a strong partnership between our country and Israel. On our Executive Committee sit the presidents of the 46 major American Jewish organizations representing more than four and one-half million active members throughout the United States.

The FY 1990 foreign assistance authorization request of the Administration reflects vital needs for U.S. foreign policy. It addresses current circumstances in key global spots and it tries to redress some of the cuts in the 150 budget function over recent years. Foreign assistance is only a tiny fraction of the overall federal budget. Cuts in foreign aid will not meaningfully contribute to the attainment of the Gramm-Rudman-Hollings deficit target. Cuts in foreign assistance will, however, cripple America's foreign policy goals.

Economic and military aid serves our national interest--both at home and abroad. We urge you to support full funding of the Administration's foreign assistance request. We urge you to preserve the Congressional prerogative to earmark. We urge you to vote for $3.0 billion in economic and military aid to Israel.

The situation in the Middle East in general and in Israel in particular has remained troubled since I last testified on behalf of foreign aid a year ago. Therefore, it is especially important not to lose sight of basic facts. The United States has a particular moral and strategic interest in Israel, the one democracy and our only reliable ally in the Middle East. It is the only country in the region with meaningful free elections, a robust free press, checks and balances to prevent and correct abuses of authority, extensive protections for the rights of individuals and minorities, basic equality for women, and other safeguards and rights that are typical of a free society. On that score, the affinity between the United States and Israel was demonstrated last November when both countries went to the polls to elect new governments and an orderly transfer of power took place in Washington and Jerusalem. Voter turnout by the citizens of Israel, Jew and Arab, ranged in the area of 80 percent, among the highest rates in the democratic world.

Israel stands in sharp contrast to other countries of the region, which include feudal monarchies like Saudi Arabia, where power is permanently concentrated in the hands of a few wealthy princes and where average citizens are under constant surveillance by the religious police and internal security forces; dictatorships like Iraq, where the government has evicted as many as 500,000 Kurdish citizens from their homes in a raze-and-destroy campaign and used poison gas against its own citizens; or radical fundamentalist regimes like Iran, which terrorizes its minorities, suppresses its middle class, and, until last summer, routinely shipped off its youth to be slaughtered in war. The combination of extremism and fundamental Islam which Israel confronts each day in the region is best exemplified by the Ayatollah Khomeini's death sentence against author Salman Rushdie--a threat which received widespread support throughout the Muslim world--because the novelist's views as expressed in fiction were deemed blasphemous.

In public opinion poll after poll for 41 years, when the American people have been asked what is known as the standard question about the Middle East, namely, "in the Middle East situation, are your sympathies more with Israel or more with the Arab nations?," they have resoundingly reaffirmed their sympathy for the Jewish state and their conviction that Israel is a democratic ally whose security and well-being are vitally important to the United States. A *Washington Post*/ABC News poll released last month indicated that American support for Israel has reached an all-time high. Israel continues to enjoy a more than four-to-one advantage over the Arab states in the hearts of Americans. Clearly, Americans do not agree with all policies of the Government of Israel any more than they do with all the policies of our own government. But, a great majority of Americans support Israel's survival and defense and very few would want to tamper with the security assistance which is Israel's vital lifeline.

Indeed, the absolute amount of our aid to Israel is substantial. But it is comparatively one of the most cost-effective investments that the United States makes in support of its common interests. U.S. expenditures in support of our European allies in NATO, for example, are more than 40 times the size of our aid to Israel. And we get a good return on our money to Israel.

Mr. Chairman, since I last testified, the deep, broadbased partnership between the United States and Israel continued to flourish. The relationship between the United States and Israel is steadfast and strong.

Partners for Peace

First and foremost, Mr. Chairman, the United States and Israel are partners for peace. In March we celebrated ten years of peace between Israel and Egypt, a peace mid-wifed by the United States. Indeed, the viability of that historic achievement was vividly demonstrated by Israel's recent relinquishment to Egypt of Taba, a flyspeck of territory in the Sinai, in accordance with the decision arrived at by an arbitration panel, a mechanism provided for in the U.S.-brokered treaty. Israel proved once again that it lives up to its commitments.

We are pleased to observe that the close consultation between the United States and Israel in the search for peace that was the hallmark of the outgoing Reagan Administration continues to serve as the model for the new Bush Administration. Prime Minister Shamir's visit to Washington proved a milestone. He offered an important substantive proposal for advancing the peace process--elections to be held in the West Bank and Gaza which would empower legitimate Palestinians to negotiate with Israel first over interim arrangements in the territories, followed by negotiations for a permanent agreement. President Bush and Secretary of State Baker recognized and highlighted the opportunities inherent in these ideas, signaling that they would serve as the focus of American efforts in the weeks ahead.

The two governments are agreed on the need for easing tensions between Israelis and Palestinians and for direct negotiations between Israel, the Palestinian Arabs in the West Bank and Gaza, and the Arab states on the basis of U.N. Security Council Resolutions 242 and 338. Both governments are in fundamental accord on the absolute necessity for a long-term transitional period to precede any final status solution. Moreover, Israeli Premier Shamir, Foreign Minister Arens and Finance Minister Shimon Peres, leader of the Labor Party, agree with the U.S. assessment that Jordan continues to have a key role to play in determining the future of the territories despite King Hussein's July 31, 1988, decision to disengage from the West Bank.

The ongoing violent demonstrations in the West Bank and Gaza lend added urgency to the search for peace. For 17 months, the uprising leadership has consistently advocated in its frequent manifestos to the local population--as in Calls Number 32 and 35 for example--throwing rocks, hurling molotov cocktails, wielding knives, and arson against the "Zionist enemy." As a democratic state in a hostile environment with enemies on three of its four borders and a hostile population under its control, faced with the threat of terrorism, Israel has groped for the most humane methods to control mob violence. The intifadah, or uprising, has been expensive for

Israel. And, Israel's handling of the intifadah has been the focus of extraordinary media coverage sparking extensive criticism. To be sure, there are flaws in Israel's intifadah management. Israelis have been the first to point them out. But, as Israel's political and military leaders have repeatedly pointed out, the bottom line is that the problem requires a political solution. As Prime Minister Shamir declared in the Rose Garden at the White House, "Our two governments are agreed that the status quo is not desirable and not satisfactory. None of us wants to see it continued."

To advance the peace process requires confidence-building measures on both sides. This was the logic behind the series of tangible measures to improve the quality of life for the inhabitants of the West Bank and Gaza on which the U.S. and Israeli governments cooperated closely since 1983. These measures, which had originally been coupled with King Hussein's ambitious West Bank development plan, were directed toward nurturing a stable Palestinian leadership in the territories with a stake in coexistence with Israel and Jordan. Such projects could become an integral part of future transitional arrangements in the territories in the peace process. AIPAC strongly supports increased U.S. funding for such measures and calls upon our European allies and Japan to contribute substantially as well.

In the final analysis, however, as President Bush eloquently implored during the Premier's visit, "no political process can succeed in a political vacuum....The Palestinians, the Arab states and other interested parties must demonstrate that they too are willing to make peace a reality." Israel's neighbors--the Palestinians in the territories and the surrounding Arab states--must, as Egypt did years ago, demonstrate their commitment to live in peace with the Jewish state.

It is in this context that one must evaluate the initiation of a "substantive dialogue" between the United States and the PLO on the basis of certain rhetorical formulations by PLO Chairman Yasir Arafat in December 1988. The key question, however, is one of substance not semantics. The PLO needs to take tangible steps towards peace, in recognition of Israel and the renunciation of terrorism, to be considered a constructive party to any discussions. Among the concrete measures for the PLO to take would be: abandoning "armed struggle" in all its forms--including an end to disturbances in the West Bank and Gaza; disbanding the terror network under Arafat's control; amending the PLO Covenant, which calls for the "elimination of Zionism in Palestine," by convening the Palestine National Council for that purpose and voting--rhetorical flourishes in Paris notwithstanding; ceasing demands for a Palestinian state before peace talks; abandoning the "strategy of phases," which seeks the elimination of Israel and the overthrow of the Hashemite Kingdom of Jordan stage by stage; and, ending the onslaught of anti-Israel resolutions at the United Nations. This is the time for Arab states, like Jordan, Saudi Arabia and Iraq, to publicly call for peace with Israel and put an end to the Arab economic boycott of Israel.

But while Israel actively pursues constructive solutions, the PLO has continued to engage in theatrics on the world scene. The ludicrous attempt at gaining membership in the World Health Organization putting at risk the very mission of that agency is an example of this. The strong stance of the Administration and Congress that the United States will not countenance such efforts sent a clear message to our allies and our adversaries to stop tampering with these international bodies. We commend Congress for its leadership on this issue. As a result of its efforts, coupled with the forceful Administration position, the chances for defeating or delaying this ill-conceived initiative look far better today than they did just one week ago.

The PLO has persisted in a host of other confidence-eroding measures. Within weeks of "renouncing terrorism" in Geneva to satisfy U.S. conditions, Arafat threatened Bethlehem Mayor Elias Freij with "ten bullets in the chest" for proposing a truce in the territories. The PLO and the uprising leadership have continued to call for physically intimidating or assassinating those believed to cooperate with Israel. Over the past year, dozens of residents of the West Bank and Gaza have been murdered by their fellow Palestinians. The *Miami Herald* reported that officials of the PLO in Tunisia formally approved the killing of Arabs accused of collaborating with Israel, resulting in at least 11 deaths during April alone.

Moreover, Arafat-aligned factions of the PLO have participated in nine abortive terrorist attacks against Israel since Arafat's Geneva proclamation. Not a single member of the PLO--not Arafat, not his deputies--said a public word denouncing any of these incidents. In fact, Faruq Qaddumi, known as the PLO's "foreign minister," declared, "The PLO is not prepared to condemn operations which any Palestinian organization or faction undertakes." At the outset, President Reagan warned that if the PLO failed to live up to its word, the United States "would certainly break off communications." The PLO must match its deeds to its words for the U.S.-PLO dialogue to continue.

As for the Arab states, in October 1988, all the Arab states, save Egypt, voted to expel Israel from the United Nations, including Jordan and Morocco. In November, Saudi Arabia and Qatar joined forces with Syria to oust Israel from the International Telecommunications Union. And, the Arab boycott of Israel, led by Saudi Arabia and Kuwait, continues unabated.

Nevertheless, we are confident of the abilities of the Bush Administration, with the backing of Congress, together with the Government of Israel to vigorously pursue peace.

Strategic Partners

But to achieve peace and maintain it requires strength, particularly in the Middle East where the forces of radicalism must be deterred. In this area, too, the United States and Israel are strategic allies. Both countries have strengthened and enhanced each other's military posture.

Israel's status as a Major Non-NATO Ally of the United States was made permanent last year with the removal of a requirement for annual review. This is a significant step forward in the strategic relationship. It will continue to enable the two nations to expand the scope of strategic cooperation. This is not an area of special benefits, grants or loans. Rather, it is a logical extension of the alliance which has blossomed since November 1983 when the United States and Israel enunciated the policy of expanding cooperation, particularly joint military planning and exercises, to meet threats to mutual interests in the Middle East and the eastern Mediterranean.

On April 21, 1988, the United States and Israel signed an historic Memorandum of Agreement (MOA) institutionalizing the strategic cooperation agreements of the past five years. The MOA serves as a fundamental building block in our strategic partnership with Israel, which has to date been broad and wide ranging. In the words of former Defense Secretary Frank Carlucci during his visit to Israel this past November, military relations between the United States and Israel "could not be better." This was reiterated by another Pentagon official who said "together we have achieved more in the last eight years to evolve (the) spirit of cooperation than at any other period in the history of our relationship."

Israel has participated in joint naval exercises with the Sixth Fleet designed to strengthen U.S. antisubmarine warfare capabilities in the eastern part of the Mediterranean Sea. It continues to provide access to its ports for regular ship visits by the Sixth Fleet. Indeed, when the President ordered a naval task force to the Persian Gulf in 1987, elements of that fleet, led by the carrier USS John F. Kennedy, called on the port at Haifa. As recently as last week, Sixth Fleet carriers were being serviced there. U.S. naval operations in the Gulf have been greatly assisted by use of the Israeli-made "Pioneer" remotely-piloted vehicle deployed on the battleship U.S.S. Iowa. This pilotless drone has proved instrumental in conducting reconnaissance and surveillance, and has been described as a "tremendous success" by the Navy.

Israel makes facilities available for the storage and maintenance of U.S. materiel for American use in a conflict. It provides Kfir aircraft at no charge to the U.S. Marine's Aggressor Squadron to help train American fighter pilots. It has provided access to bombing ranges in the Negev desert for training exercises for U.S. Navy fighter pilots. It has engaged in military training exchanges with the U.S. Marines. It has staged joint military exercises with American special anti-terrorist forces. These cooperative military efforts have proved mutually beneficial and will be continued and expanded as the overall strategic relationship continues to grow.

Israel has entered into formal arrangements to provide access to its sophisticated hospital facilities for U.S. military casualties in a conflict. These facilities have already been used to treat U.S. personnel injured in the bombing of the U.S. Embassy Annex in east Beirut in 1983 and on several other occasions.

Israel has shared with the United States the lessons of its combat experience in Lebanon, where Israel successfully used American equipment against Soviet weapons. It has undertaken joint research and development projects with the Pentagon to build on the technological expertise acquired from decades of conflict. In December 1987, Secretary of Defense Frank Carlucci and Defense Minister Rabin signed a Memorandum of Understanding enhancing Israel's ability to participate in joint defense R & D efforts with the U.S. The Army, Navy, Air Force and Marines continue to express great interest in testing and procurement of Israeli defense systems. Indeed, Israeli technology accounted for over half of the funds in FY88 for evaluation of items from Major Non-NATO Allies.

Israel is also one of only a few countries--including Great Britain, West Germany, and Japan--to sign a Memorandum of Understanding (MOU) on mutual threat and the benefits of cooperation and shared technology in the Strategic Defense Initiative and continues to participate in this effort. Specifically, Israeli technology will be key to the successful development and deployment of an Anti Tactical Ballistic Missile (ATBM) system. A $158-million agreement on co-development of the Arrow interceptor missile was finalized in July 1988, and it will be ready for testing within several years. ATBM has become an increasingly vital priority for the U.S. in the wake of the signing of the INF treaty.

The United States military has continued to expand its purchases of sophisticated Israeli defense technology. Among the estimated $300 million in contracts in 1988 were major agreements on new mortars and communications systems for the U.S. Army. The U.S. Air Force is very interested in acquiring several Israeli missile systems.

Diplomatic and Trade Partners

Israel's role as an ally of the United States, however, goes well beyond the confines of military cooperation in the Middle East.

At the United Nations, Israel voted with the United States on 80 percent of the General Assembly resolutions introduced in the 42nd session (the most recent available figures), the highest rate of cooperation of any country in the world, higher even than Great Britain or Canada. This contrasts with 31 percent for Turkey, and 35 percent for Greece--America's NATO allies in the eastern Mediterranean. It also contrasts with 14 percent for Egypt, 12 percent for Saudi Arabia, and 13 percent for Jordan--and the Soviet Union's 10 percent record.

In the information war, Israel agreed several years ago to an American request to proceed with plans to install a Voice of America transmitter in the Negev desert to enhance American broadcasts to Soviet Central Asia, Afghanistan, and Eastern Europe, at the risk of worsening the plight of Soviet Jews. By contrast, two of America's NATO allies, Greece and Turkey, refused to host the VOA transmitter because of their unwillingness to endanger their relations with Moscow. Reportedly, Oman also turned down an American request. I urge the Committee to support funding for this important project.

Moreover, at a time when American exports face protectionist trade barriers around the world--when even our closest allies refuse to eliminate unfair trade practices, and indeed are erecting new barriers to American products--the historic U.S.-Israel Free Trade Agreement continues its phased implementation. A major step was taken on January 1st of this year, when Israel eliminated a host of tariffs in order to put American goods on equal footing with those from Europe. The success of this unprecedented agreement paved the way for a similar agreement between the U.S. and Canada.

At the end of the day, American exporters want to know if the Free Trade Area has led to a growth in trade. Since its signing in 1985, U.S. exports to Israel have increased by 34 percent. This means more sales, and profits, for American business. In fact, Israel is second only to Canada in terms of per capita imports of U.S. products.

And so, Mr. Chairman, in the peace process, in strategic cooperation, in the diplomatic arena, and on the trade front, Israel is today one of our foremost partners in the world, working with the United States toward regional and global security.

Partners in Strengthening Israel's Economy

Israel and the United States have also cooperated in other bold initiatives over the past several years. Working together, they have successfully undertaken to rescue Israel's economy from the severe distress it was suffering just a short while ago.

Over the past three years, Israel has demonstrated how U.S. foreign assistance, in combination with strong and well-conceived corrective measures in the economy, can turn economic distress into an opportunity for recovery. Israel's recovery program has included some of the toughest austerity measures ever imposed by a democracy. The Congress, the people and the President of the United States were partners in this process, because a critical ingredient has been U.S. economic assistance. U.S. aid was the decisive safety net required to undertake such a bold initiative. Earlier this year, the *Wall Street Journal* called Israel's stabilization program a "mini-miracle."

Today, Israel is striving to go beyond stabilization, to address the underlying structural changes required for sustained economic growth. 1988 was a landmark year in these efforts. Israel held the line on inflation for the third consecutive year. Israel's new Finance Minister, Shimon Peres, waited only a few days after his appointment to launch an initiative to further trim inflation from its current 16 percent annual level. Israel's foreign currency reserves remain strong, at $3.4 billion.

In 1985, Israel's annual budget deficit was 15 percent of Gross National Product (GNP). Today, Israel's budget deficit is just three percent of GNP. Israel has held the line on government spending, a feat we can well appreciate here in Washington.

At the same time, the government continues to slash subsidies of public transportation and basic food products such as milk, bread and eggs. Such cuts are painful, and cause upward inflationary pressure in the short term. Moreover, the health and education budgets will constrict this year once again. Still, within Israel's National Unity Government there is broad consensus on the need for such measures.

The Israeli government has imposed new user fees on education and health care, and Finance Minister Peres is advancing a plan to reduce the number of workers employed by the government by 10 percent over a three year period. This is a bold step for the Finance Minister. Israel has long embraced the concept of full employment. Today, unemployment in Israel is close to seven percent of the workforce. Capital market reform continues to progress.

Israel continues to move down the long road of privatizing government-owned companies. Last year, the Israeli government asked a major U.S. financial institution, the First Boston Corporation, to develop a strategy to achieve this goal. The Israeli government is already executing the prescribed approach. It has already sold off the Paz Oil Company, as it will soon do with the Israel Chemicals, Ltd. It is also looking for a buyer for Bezek, the national telephone company.

In March, the International Monetary Fund issued an authoritative report confirming Israel's success in stabilizing its economy:

> We are impressed with your success in restraining military spending and in reducing subsidies....We are particularly impressed with the most recent national wage agreement which called for no increase in basic wages at all this year....The central problem is to get investment moving again....The focus of discussion has accordingly shifted from economic stabilization to growth....The pressure to do better yet should be unrelenting.

The United States has a vital interest in Israel's economic well-being for several reasons. First, the economic health of our major allies and fellow democracies is inherently a vital interest for the United States, because in a very profound sense, the free nations stand or fall together. Second, the economy of Israel is the bedrock of the nation's ability to sustain its own defense, and for this reason Israel's economic health is essential to the stability of the region. And third, it is a vital interest of the United States to ensure that Israel continue on the path of economic growth and self reliance. This is something we can do, and for our own interest, must do.

The challenge for the United States, and for this Committee, as we look to the year ahead, is to continue a program that is working, and to take the steps that are necessary to reinforce and indeed accelerate the recovery to which the United States has already contributed so much. The foreign assistance program before you is truly an investment in Israel's future.

Although the level of aid to Israel has remained steady for four years, the real value of that aid has declined. There has been a steady erosion in the value of Economic Support Funds and Foreign Military Sales credits to all aid recipients. Based upon information provided by the Congressional Budget Office, Office of Management and Budget and the Department of Defense, our aid package to Israel has eroded in value by some 15 percent since 1986, as illustrated in Chart I.

While Israel's FMS debt burden has been somewhat reduced due to the highly successful refinancing program, overall U.S. Government-related debt remains high. In spite of the Cranston Amendment requirement that economic aid to Israel be greater than Israel's debt service to the U.S., in FY90, Israel's debt obligations to the American government will total $1.37 billion. In fact, Israel's debt due on U.S. government loans and guarantees will exceed the $1.2 billion mark well into the next decade.

For these reasons, it is ever more urgent to explore ways to stretch the FMS dollar. One proposal currently being advanced is the Comprehensive Fair Pricing initiative. By eliminating certain surcharges which are imposed on each FMS transaction, Comprehensive Fair Pricing will significantly increase the buying power of scarce military assistance funds. Comprehensive Fair Pricing would apply to all FMS recipients, for all FMS transfers. We strongly urge you to support this proposal.

Maintaining Israel's Vital Qualitative Edge

Beyond the challenge of economic recovery, the program before you is essential for a second reason. This is the fact that our assistance to Israel over the coming year will have a critical impact on the security of the Jewish state.

In past years, I have related to this Committee a bleak description of the erosion in Israel's margin of security. This has resulted to a great degree from the very financial and budgetary austerity measures that were necessary to rescue Israel's economy. Regrettably, that assessment, while improving, still captures the essence of the situation. Indeed, the effects of recent years' defense budget cuts will continue to be felt well into the 1990s.

The austerity measures cut Israel's ~~defense~~ spending by about 20 percent in a two year period--one of the largest reductions ever imposed by a democracy in so brief a timespan. Since 1986, Israel's annual defense expenditures have remained stable in absolute terms, and therefore have actually decreased in real terms. While Israeli military planners have attempted to make the cuts without eroding Israel's narrow margin of safety, reductions of this magnitude have, inevitably, added to the element of risk in many areas.

In recent years, active combat units were disbanded, reduced in size or converted into reserve formations. Large numbers of vital aircraft have been mothballed, effectively grounding 15 percent of Israel's combat force. This has decreased the number and size of army brigades and air force squadrons available to meet a surprise attack, weakening the basis on which Israel's security has rested since the conclusion of the 1973 Yom Kippur War.

At least one of Israel's mechanized/armored divisions has been dissolved, resulting in the withdrawal of several hundred tanks from the IDF battle order. This means a serious decline in Israel's visible deterrent capability as well as a decline in its war-fighting ability.

The impact of past reductions in training time is still being felt, and has been made worse by the demands of dealing with the intifadah. The expenditure of ammunition in training is still being curtailed. There have been serious cuts in the number of flying hours allowed aircraft pilots, resulting in 20 percent of pilots being dropped in order to continue training for the remainder. Israeli pilots now are able to fly fewer training hours than their American or Jordanian counterparts. In terms of actual funds, it is estimated that it costs the Israeli Defense Forces $970 per hour to operate a Merkava tank engine, $2,687 per hour to operate a missile boat and $13,708 per hour to fly an F-15 fighter.

Reserve readiness has been cut. For several years the number of reserve days served by Israeli soldiers was decreased, although it was increased recently to cope with the demands of service in the West Bank and Gaza Strip. However, because of the amount of time both regular and reserve troops are now spending in riot control duties on the West Bank, they have less time to train for their primary mission of conventional defense. Israel had been forced to increase its forces in the administered territories by four or five times the level present two years ago. As a result, reserve units will continue to be less prepared for conventional warfare than they were in the past.

Thousands of active duty military personnel have been released from the IDF. This has meant the loss of a great many highly-skilled individuals who will be sorely missed by the Israeli armed forces.

Morale has been lowered. Pay cuts and personnel releases have produced an exodus of highly trained and motivated professionals and have lowered morale generally. Riot control service in the West Bank and Gaza has placed an added strain on the troops. These factors threaten to undermine a key aspect of Israel's military superiority--its large qualitative advantage in personnel.

Ammunition and equipment stockpiles have suffered deep cuts, in order to lessen the impact of reductions in other areas. This has reduced Israel's ability to sustain its forces in combat. In order to reduce expenses, the armed forces have continued to draw down their stockpiles without full replacement. General Menachem

Einan, chief of the IDF Logistics Branch recently pointed out the urgency of this situation, stating that the Israeli Army must "close the gap created in the last three to four years between current and operational levels" of stores.

Many programs, such as continued acquisition of new Merkava III tanks, helicopters and naval vessels, have been delayed.

Expenditures on research and development have been significantly curtailed. This has diminished Israel's ability to develop and produce the unique new weapons and countermeasures needed to counter increasingly sophisticated weapons entering Arab arsenals. This further diminishes Israel's qualitative advantage over its opponents. In 1988, as in previous years, Israeli defense industries were forced to reduce their staffs and plant facilities and thus are less able to support Israel's military needs.

These cuts in Israel's defense budget have made American FMS aid to Israel all the more important. In particular, this money has helped upgrade Israel's Air Force--whose margin of superiority over its adversaries remains the cornerstone of Israel's security doctrine--particularly, through the acquisition of 60 additional F-16 fighters to fill the gap created by the cancellation of the Lavi. We specifically wish to thank this Committee and the Congress for earmarking increased funds for procurement of defense items in Israel. Permitting "offshore procurement" of this type helps ease the crisis faced by Israel's defense industry.

Another key program that will be funded through the FMS account is the upgrading of Israel's Navy, which must confront the colossal growth of hostile Arab navies like that of Syria, which has doubled its fleet of combat vessels since 1982. After years of delay due to budget constraints, Israel has finally been able to fund the building of new submarines and missile corvettes.

The termination of the Lavi in 1987, which was to have been the centerpiece of Israeli industrial potential, was a hard blow for the country, and its effects are still being felt two years later. It was initially thought that cancellation of the program would free substantial funds for other urgently needed defense projects. However, the Israeli military has only been able to reallocate a small portion of this money. The remainder of these funds has been used in areas directly associated with the Lavi's discontinuation.

Overall, Israel faces long-term reductions in the size of its military forces. What is lost in quantity must be made up in the qualitative enhancements provided through the development and use of advanced technologies.

The Arab Military Buildup

Despite reductions in oil revenues in recent years, Israel's enemies continue to purchase more and newer weapons to add to their already bulging arsenals. (See Charts II and III.) They have placed orders for billions of dollars worth of new weapons each year, and have tens of billions of dollars more still in the pipeline from past years. Since 1973, the leading Arab nations still at war with Israel have spent roughly $400 billion on their armed forces. U.S. arms sales in the region have begun to increase again after several years of decline, growing from $7 billion in FY87 to $12 billion in FY88. Arab nations at war with Israel are continuing to spend approximately $30 billion annually on their military forces. According to the last set of figures released by the United States Arms Control and Disarmament Agency, four of the eight largest arms importing nations in the world are Arab nations at war with Israel: Iraq, Saudi Arabia, Libya and Syria. And, it may be significant that despite its economic problems, Egypt was the next largest importer.

Syria has expanded and improved its armed forces since its defeats in the 1982 fighting. All branches of Syria's military have grown as a result. There is a growing disparity in standing armed forces--approximately 400,000 for Syria as compared with 150,000 for Israel. This could serve to increase Syria's incentive for a surprise attack. Syria's president, Hafiz Assad, has made very clear that his goal of "strategic parity" with Israel is a synonym for war preparations. Indeed, according to one estimate, the Syrians devote half their national budget to the armed forces, spending $1 billion more than Israel each year. As part of that buildup Syria has increased by 50 percent the number of divisions in its army. These troops have been reequipped with the latest model tanks, artillery, and other equipment available to the Syrians. The Syrians studied carefully the fighting in Lebanon in 1982 and have incorporated lessons from that campaign into their doctrine and training.

Syria's navy has also been a major beneficiary of this buildup, seeing its number of combat vessels double in the years since the Lebanon war as well as the addition of previously unavailable capabilities. These new capabilities are the result of Syria's acquisition of modern Soviet Kilo-class submarines, and a new coastal defense missile, the Sepal, with a range of about 180 miles.

Syrian air defense and air forces have also benefitted in this expansion. The losses of 1982 have been replaced, and more advanced types of anti-aircraft missiles and aircraft have entered service. New anti-aircraft systems have included the SA-5, SA-11, SA-13, and SA-14 missiles. Syrian pilots have been trained in the Soviet Union on one of its most advanced fighters, the MiG-29, the first squadron of which has been delivered, with the transfer of a second squadron expected in the near future. Of even greater concern are reports that Damascus will purchase Su-24 fighter-bombers. These potent aircraft in Syrian hands will seriously increase the military threat to Israel.

The Syrians have also acquired Soviet-built SS-21 tactical ballistic missiles, another piece of first-line equipment for Soviet forces facing NATO. These missiles are much more accurate and dangerous than the earlier Soviet-built Frog and Scud tactical missiles in the Syrian armory. The accuracy of these new missiles increase Syria's 'first-strike' attack abilities against key Israeli installations including air bases and mobilization points. This comes at the same time as a major effort by Syria to build up its chemical warfare capabilities. Two factories are currently producing a variety of nerve gas agents which can be deployed as warheads on Syria's ballistic missiles.

Jordan, too, has continued its military buildup. The Jordanians have placed orders to increase inventories of tanks, artillery, helicopters, anti-aircraft systems, vehicles, air-to-air missiles, and other munitions. According to the United States Arms Control and Disarmament Agency, Jordan, a country with a gross national product of $4 billion (1984) took delivery of nearly $4 billion in arms in the four-year period between 1981 and 1985.

A key part of Jordan's military buildup plan appears to focus around increasing its air defense capability through the acquisition of advanced fighter aircraft and mobilization of its batteries of Improved Hawk anti-aircraft missiles. If Jordan succeeds in its search for this capability, then it will be in a position to directly threaten Israel's margin of air superiority. Jordan recently announced that it is purchasing both the Mirage 2000 and Tornado fighter aircraft, both of which will add significantly to the Kingdom's ability to challenge Israel in the air.

Moreover, Jordan has one of the Arab world's most modern and qualitatively superior ground forces. The highly-trained Jordanian Army has purchased offensively-oriented equipment such as mine field breaching devices and assault bridging equipment.

Libya, despite its massive arsenal of Soviet-supplied weaponry, has until recently had only limited capability to directly attack Israel. The Qadaffi regime has now obtained the capacity for aerial refuelling of its attack aircraft from West

Germany, giving them the means to reach Israel. This is particularly alarming in light of the recent revelations concerning the Libyan chemical weapons plant, also developed with Western assistance. And, the Soviet supply of six Su-24 long-range strategic bombers further enhances the Libyan threat.

Since 1980, Iraq, which has sent forces to fight Israel in three wars, has more than tripled the size of its armed forces. Indeed, since the beginning of this decade, Iraq has become the world's leading arms importer, taking delivery of weapons worth an average of over $3 billion every year. With the end of the Gulf War, it can be expected that the enormous arsenal accumulated in Iraq will be at least in part available for use against Israel, as it has been in the past. Moreover, the Iraqi armed forces are battle-hardened; they are better organized, better trained and more fully mechanized and modernized as a result of their seven-year war with Iran.

Iraq has extended the range of its surface-to-surface Scud missiles. This enhancement enables Iraqi missiles, possibly armed with chemical warheads, to reach Israel from launch points in western Iraq.

More ominous still are reliable reports that Iraq is engaged in a crash program to build nuclear warheads for use with a strategic missile.

Despite steep reductions in oil revenues, Saudi Arabia continues to order weapons on a grand scale. It leads the Arab states in military expenditures, this year spending over $17 billion on its military, a sum equal to 75 percent of Israel's entire GNP. In each of the years 1981-1985, it was the world's second largest importer of arms. Current Saudi military expenditures per regular soldier are almost twice American expenditures (approximately $262,000 to $136,000). And, as Saudi Defense Minister Prince Sultan has made clear on several occasions, the focus of this military buildup is Israel, not Iran or the Soviet Union. Therefore, not only does it seek to acquire military capabilities far beyond its own legitimate defense needs, it continues to fund Syrian, Jordanian and Iraqi arms purchases and PLO terrorist activities against Israel. As is by now well known, Saudi Arabia has also recently acquired intermediate-range ballistic missiles capable of carrying a variety of warheads up to 1500 miles. These Chinese systems represent an entirely new class of missile in the region and their deployment is without justification.

As part of this huge ongoing military buildup, Saudi Arabia has been seeking steadily to increase the size and combat capabilities of its air force. An important aspect of this particular effort has been the Saudi attempt to enhance the fighting qualities of the combat aircraft it has acquired from the United States. In this it has been partially successful, to the detriment of Israel's security. The sale of further American aircraft enhancements or replacements to Saudi Arabia cannot but lessen the opportunity for Israel to expend its resources on projects more productive for its society than on countering an ever-extending range of Arab military power.

Last year, Saudi Arabia and Great Britain announced what has been widely described as the "arms deal of the century," worth over $50 billion according to many sources. The centerpiece of this sale is the purchase of yet more advanced Tornado fighter-bombers, capable of attacking deep inside Israel.

Mr. Chairman, the Arabs purchase these arms from dozens of different nations around the globe. Our country has been a major supplier to these nations, selling billions of dollars of military goods and services to avowed enemies of Israel. American sales of new weapons systems to hostile Arab nations have had a particularly profound impact on the military balance between Israel and those states because American technology is often superior to that of competing weapons. These sales have significantly raised the cost to Israel of maintaining its own defenses, exacerbating the strain on Israel's economy, and, barring any changes in American policy, will continue to do so in the future.

The chemical weapons threat to Israel continues to grow. Both Syria and Iraq have developed their abilities to the point where they are manufacturing their own deadly chemical weapons, and in the case of Iraq, have used them on numerous occasions in its war against Iran. In March 1988, Iraq used its chemical arsenal against in the Kurdish town of Halabja, killing an estimated 5,000 Iraqi citizens and seriously wounding an equal number. Iraq again attacked the Kurds with chemical weapons in August on an even wider scale.

The realization of what was earlier an approaching threat has forced Israel to take in its turn precautionary steps to protect its population and soldiers from similar attacks, again at further cost to itself. Israel has had to initiate a massive civil defense program to protect its citizens, as well as invest in protective measures to keep airbases and other military facilities operational in a chemical environment.

Overall, what we have is a pattern of accelerated Arab buildup while Israel substantially cuts its forces. The dramatic contrast in forces is demonstrated in Chart III. The effort to maintain the qualitative edge adds to the burden on the Israeli economy, further worsening the quantitative gap in the Arab states' favor.

Mr. Chairman, we are all proud of Israel's achievements, but realistically it is impossible to have this combination of trends without a diminution of security. Israel's margin of safety is, inevitably, reduced by the austerity measures it has been forced to take in past years.

Today, I come before you to ask that you take the very serious security risks facing Israel into account when you consider the level of aid to Israel for FY 1990. What this Committee does will have a direct impact on Israel's security, in a situation where there is little room for error. Moreover, any reduction in aid will send the wrong signal to Israel's enemies.

Let me sum up, Mr. Chairman, the conclusions of my testimony. Our aid to Israel has been a wise investment, because Israel is our one democratic friend and most reliable ally in a critical region of the world. But this year aid to Israel is particularly important for three reasons.

The first is to prevent any further erosion in Israel's narrow margin of security in a situation where its forces have been cut while those of its adversaries are rapidly growing. Moreover, in this era of concern over allied burden-sharing, it is important to remember that while we devote roughly $170 billion to the defense of NATO, whose members spend an average of only five percent of the GDP on defense, Israel spends almost 25 percent of its GDP on defense (see Chart IV).

The second reason aid is particularly important again this year is to stay the course on the economic recovery and growth program on which Israel has embarked. This is no time to reduce our effort.

Last, but not least, Mr. Chairman, aid is an important tool to advance the peace process. Israel must feel confident of American support and commitment as it takes risks for peace.

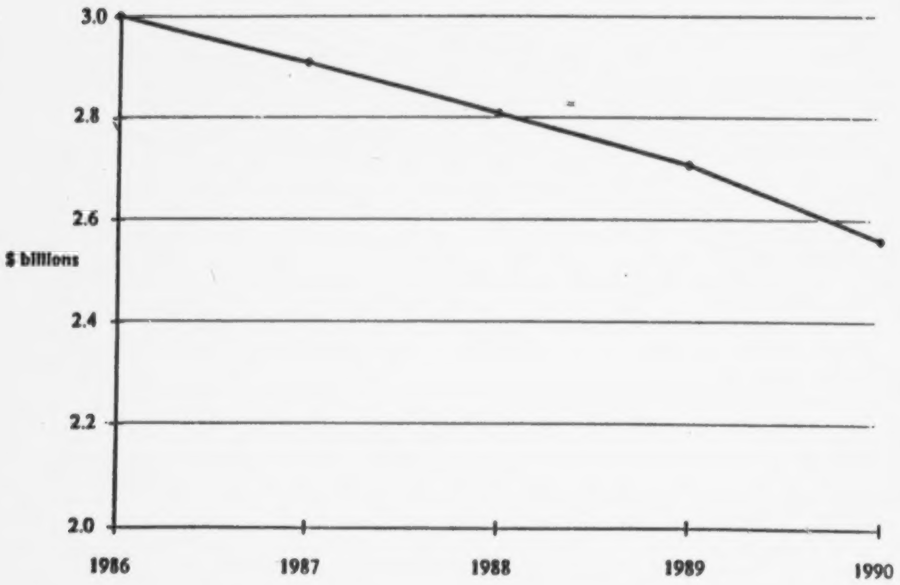
Israel is aware, however, of America's budget constraints and thus has not increased its aid request over the past four years. Indeed, in 1986, the Government of Israel, acting as a responsible partner in the foreign aid process, returned $51.6 million in ESF funds to the U.S. Treasury despite the economic pressures it was facing.

Mr. Chairman, I thank you for the strong friendship you, this Committee, and the Senate, have demonstrated toward Israel, and for this opportunity to explain the importance of FY 1990 aid to Israel and to America.

CHART I

Foreign Assistance to Israel: Erosion in Value

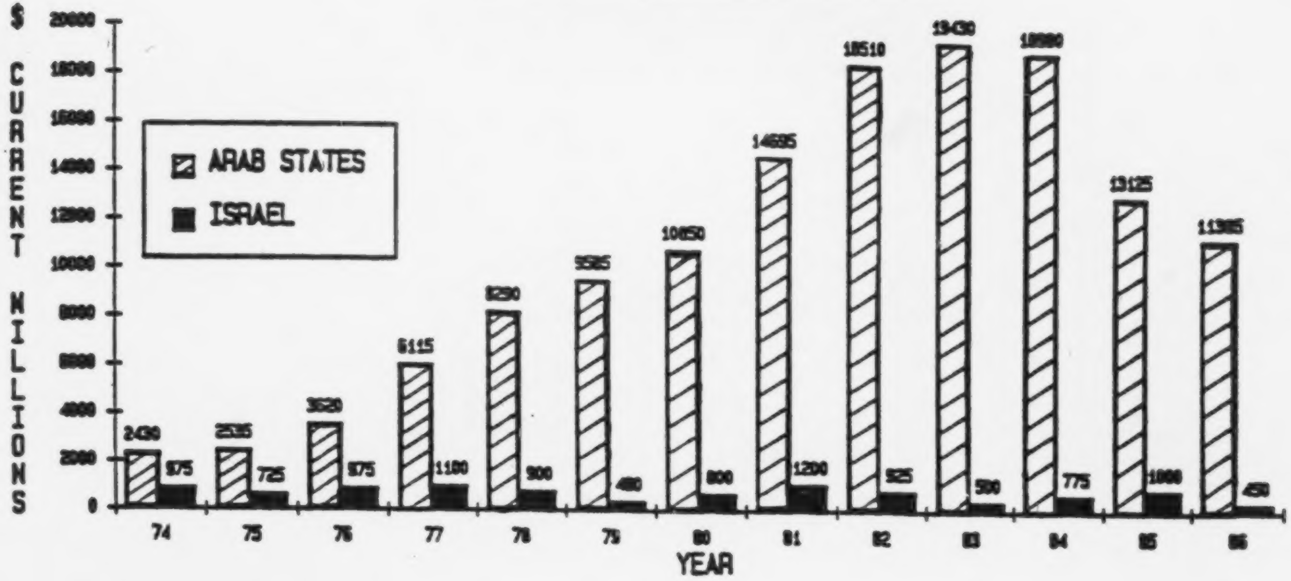
Constant 1986 Dollars



Based on information provided by the:
Congressional Budget Office,
Office of Management and Budget and
Department of Defense.

CHART II

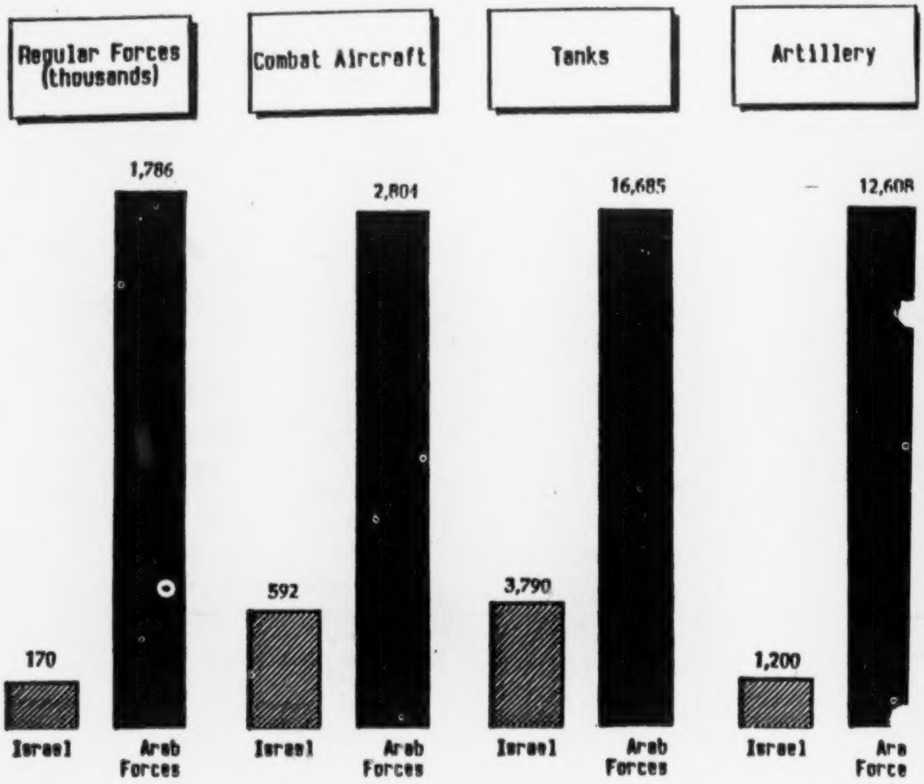
MIDEAST ARMS IMPORTS
1974-1986



SOURCE: U.S. ARMS CONTROL AND DISARMAMENT AGENCY

CHART III

THE MILITARY BALANCE 1987-88



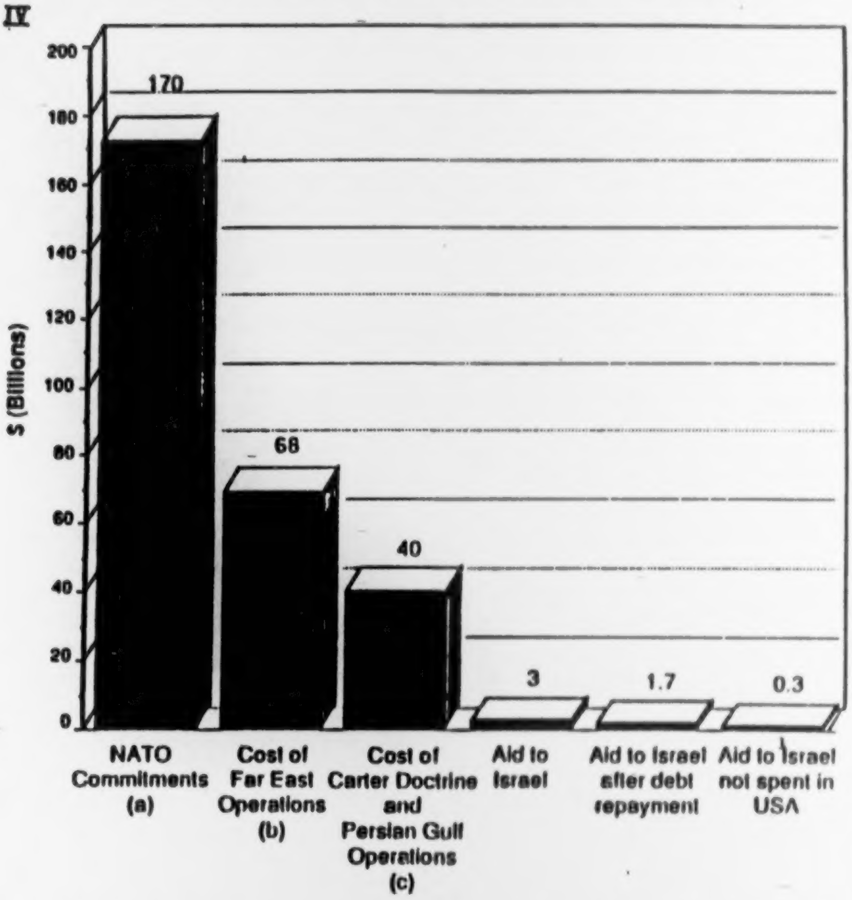
Source: Middle East Military Balance 1987-88

Arab Forces include Egypt, Iraq, Jord
Kuwait, Libya, Saudi Arabia, and Syri

Aid to Israel Compared to Major International Costs

(Figures based on FY 1987 expenditures)

CHART IV



(a) Direct and indirect costs of NATO defense commitment calculated on the basis of 56% of defense budget (this percentage based on figures in "Reduction in U.S. Costs to Station Forces in FRG and UK Are Unlikely," General Accounting Office, July 31, 1984)

(b) Direct and indirect costs of Far East commitments based on number of troops stationed in Asia (114,000) compared to number of troops stationed in NATO countries (290,000)

(c) John Lehman, "Carter Doctrine Is No Longer Adequate in Gulf," The Wall Street Journal, August 5, 1987, page 22.

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Senator SANFORD. Thank you.

Senator Pressler.

Senator PRESSLER. Well, I am a very strong supporter of our aid to Israel because I think it has paid our country great dividends. Also, I happen to believe in the state of Israel. In my State it is a little more difficult to defend sometimes, but Israel is the only country that votes consistently with us in the United Nations. Israel is an ally of ours in that part of the world where we do not have to go to the expense of stationing troops. If we compare what we spend in Europe to what we spend in the Middle East, it is a good bargain.

All that being said, as the world evolves, as what is happening in the Soviet Union is changing, will there be changes in the reasons for our support of Israel as we enter this new era in our relationship with the Soviet Union?

Mr. DINE. I do not think so, Senator Pressler, as long as you accept the assumption that this is a dangerous world. I hope that the United States and the Soviet Union continue to progress along the lines as has been happening over the last year or so, but we are going to be competitors and because we are going to be competitors the United States is going to need friends and allies, as we always have, like Israel.

The Eastern Mediterranean is a potential competitive area between the two superpowers, and Israel and the United States have had joint planning, joint military exercises, joint involvement with all kinds of projects involving that area of the world.

So, I suspect that the United States will want Israel's capabilities to be with our efforts in that regard and, therefore, while it would be nice that the United States and the Soviet Union were not competitors but friends, I do not think we can see that in the coming years ahead.

With regard to potential peace in the Middle East, I think that is where a lot could happen that would change some of the expenditures of the United States. There could be a peace dividend. Again, that is going to be a long process. I wish it would be shorter. I wish a real process would begin.

Senator PRESSLER. Let us just imagine that peace broke out in the Middle East by an agreement being reached or hearts softening or something. What impact would this have on our aid request for Israel, to the Egyptian-Israeli aid package?

Mr. DINE. First of all, I do not think it would change the status of Egypt's or Israel's economy for the time being. The key would be to reduce defense spending in both countries.

If your dream actually became reality, then Israel and Egypt would have less requirements on its defense spending. There are many ifs that assertion of yours that it is almost dazzling to think about.

Israel spends about 25 percent of its GNP on defense.

Senator PRESSLER. How much economic development is genuinely occurring as a result of this aid?

My wife and I had the privilege of visiting both Israel and Egypt this last Christmas season. We also visited Iraq and Saudi Arabia and tried to get a feel for that part of the world.

Is there progress in an area that I am particularly interested in—entrepreneurship and small businesses and agriculture? Is the situation static? Is it expanding in Israel? What is going on? What are the results economically?

Mr. DINE. I think the Israeli rate of growth per year is close to 3 percent. It is competing in the European Economic Community and in the North American markets.

Our economic support funds go to Israel to help Israel repay to the United States military loans taken out in previous years and the interest thereof. To increase growth, Israel's privatization of government companies is taking place. The sale of Israeli chemicals is expected soon. There is also dramatic increase in productivity in major industries such as Israel aircraft, textiles, Scitex, Israel tires, and other companies. Israel relies heavily on exports, particularly exports to Europe.

To go back to your previous dream, if peace broke out in that area of the world, Israel would probably be able to trade with its neighbors. Its neighbors now are not so friendly, and it is not exactly a friendly economic neighborhood therefore.

If that took place, I think Israel's economy would take off.

Senator PRESSLER. Just one final question. Are we defining our aid to Israel and Egypt correctly? In defending my votes in this area, I always have to refer to the fact that if we did not do this we probably would have to have troops in the Middle East ourselves.

Should we be calling this more military aid than foreign aid? Is our terminology correct?

Mr. DINE. I think so. This has been a perennial debate in the foreign policy community, in the pro-Israel community around the country.

Foreign assistance is just that, assisting foreign countries and peoples because in the process it will help the United States. It is an instrument, therefore, of American foreign policy. It is not seen as a part of our defense bill or defense program, per se, nor would the Joint Chiefs of Staff like to have this program under its wing.

I think it is a mistake to want to include it in the defense budget. I think it is a mistake to think of it as a military program. I think it should be seen as advancing American interests, foreign policy interests in this case in the Middle East.

Senator PRESSLER. Thank you very much.

Senator SANFORD. Thank you very much.

I have a question for Mr. Dine from Senator Cranston which I will read into the record and then invite you to reply to it.

Mr. Dine, on a different but related subject, as you know we have a funding proposal for a multilateral aid initiative for the Philippines. I know that you have some special knowledge of the Philippines, and I am aware of the role of our military facilities there that they provide in support of the American policy in the Middle East.

Would you recommend our contribution of $200 billion for support of the MAI, even if it would mean adjustments in other programs?

Mr. DINE. My background, Mr. Chairman, is having served as a Peace Corps volunteer in the Philippines a long time ago.

I very much support the MAI proposal, and I think it should be fully funded. I am not in favor, however, of readjusting the foreign aid bill to meet every crisis that comes up. We ought to have adequate funds proposed by the administration and authorized and appropriated by the Congress to advance American interest, as Senator Pressler and I were just discussing.

I do not believe that if Israel and Egypt are the largest recipients they ought to take out of Israel and Egypt every year moneys to spend in other areas of the countries of the world. We ought to have enough maturity as a country and enough respect for the needs for development assistance along the lines the previous panel proposed and therefore put enough of our money where we want the world to progress over the next decade or so.

So, yes, I support the effort to help the Philippines recover from years of dictatorial ravaging; and yes, I believe in development assistance to a country that is a friend and an ally that the Philippines has been, and we ought to be able to find moneys in our own programming and not take it out of, for instance, the Camp David Program, Israel and Egypt.

Senator **Sanford**. I do not know that his question asks specifically if it should be taken from there.

Mr. **Dine**. I know, but I know where that question leads.

Senator **Sanford**. I would elaborate on his question here just a little bit to say that the Budget Committee, under the constraints that the heavy deficit puts on it as well as the agreement reached with the White House, has given us in the Foreign Relations Committee specific ceilings, and that says there is no money if we do not take it from somewhere else.

Mr. **Dine**. I hear you, Senator.

Senator **Sanford**. Everybody would quite agree with you. We ought to have more money for all kinds of things. The real fact is that as Senator Cranston is pointing out and which he wanted answered—and I think maybe you have answered it—that there is no other money to get. If it is obtained, it has to be from these limits that the Budget Committee has put on us.

Mr. **Dine**. Senator Sanford, I just think it raises a larger question, and that is called priorities. What does this country stand for? It stands for peace in the Middle East. That is a high priority and has been the priority of the Congress and several administrations since 1973.

We obviously want to support the Aquino administration in Manila, and that is a high priority. Maybe we ought to look at the foreign aid bill in terms of priorities, and maybe some of the programs would not last very long if you looked at them in terms of priorities and cost-effectiveness.

Senator **Sanford**. Thank you very much.

Mr. **Moses**.

STATEMENT OF GEORGE R. MOSES, SENIOR CONSULTANT, NATIONAL ASSOCIATION OF ARAB AMERICANS, WASHINGTON, DC

Mr. **Moses**. Thank you, Senator. NAAA welcomes the opportunity to present its views on the Middle East portion of the administration's foreign aid request this year. As the principal political organization representing the 3 million Americans of Arab descent, we strive to promote close and cordial relations between the United States and the Arab countries of the Middle East.

In presenting this testimony, we seek also to help ensure that American foreign aid tax dollars are spent in the most effective and productive way possible.

A number of auspicious events in the past year both at home and abroad have provided an unprecedented opportunity for peace in the Middle East. U.S. encouragement of these developments and a prudent allocation of foreign aid can help to achieve comprehensive peace in the region.

Among the most welcome achievements has been the cessation of the Iran-Iraq war and its devastating carnage. Men and women of good will throughout the world will applaud the efforts of both combatants to rebuild their economies and heal their wounds.

No less momentous have been developments in the Palestinian-Israeli conflict. Last year at this time, few would have seriously anticipated that the United States and the Palestine Liberation Organization would have opened the dialog after years of official silence and mutual suspicion. Yet the Declaration of Independence of the Palestine National Council and the straightforward and unambiguous statements of PLO Chairman Yassar Arafat represented a remarkable opportunity and a contribution to peace that should neither be underestimated nor ignored.

The Reagan administration will receive high marks from history for its decision to open a long overdue dialog despite criticism from those who would exclude Palestinians from participating in decisions affecting their own destiny. It is our hope that the administration of President George Bush with the encouragement of this committee and the Congress will continue and succeed in pursuing a substantive dialog which will ultimately lead to a comprehensive peace.

Proceeding now to the specifics of the request as regards the Arab world, we strongly support the increased aid levels the administration has proposed for Jordan. Long a friend of the United States, a strong and prosperous Jordan is an indispensable element in the search for peace in the Middle East. It is a force for moderation and stability in the region and its ability to continue as a central actor in the peace process depends on the willingness of the United States to help in meeting its legitimate and very pressing economic and military needs.

The levels proposed, we believe, are grossly inadequate, given Jordan's need and the importance we attach to that country, and both economic and military needs are urgent.

In light of the present situation in Jordan, we also urge the committee to consider favorably initiating a grant of Public Law 480 food aid to help over the painful readjustments that are taking place.

In the case of Lebanon we are hopeful that 1990 will bring a rapid improvement of political conditions in Lebanon and that the Lebanese people will rally to form an effective and stable government as quickly as possible.

Of the over 3 million Arab Americans that I mentioned, most, including myself, are of Lebanese descent. So, what happens in Lebanon is of personal and painful concern to all of us, and I know that the committee shares those concerns.

We recognize that no short-term solution is possible. Our advice to this committee supports a long-term view of potential solutions, since any permanent solution must take account of the complexities and diversity of Lebanese society.

The short-term resolutions being urged by some resemble the quick-fix solutions proposed in the past which resulted in the commitment of United States Marines in Lebanon and the ill-fated agreement which left Israel in control of southern Lebanon.

Consequently, we call on this committee to support multinational efforts such as the Arab League initiative to effectuate an immediate cease-fire in Lebanon, including a concerted international effort led by the United States to reduce the flow of weapons to the various factions.

Linked to the cease-fire, a peace conference must be held to which all of the combatants are invited, one which will establish a new government securing and protecting the basic rights and liberties of every Lebanese citizen. Work toward a solution of the problems of Lebanon must proceed despite the existence of other conflicts in the region.

In the short term, it is essential that the United States visibly demonstrate its deep concern through the delivery of humanitarian aid to Lebanon on a scale sufficient to leave no doubt as to American intentions.

Finally, we support the administration's proposal for ASHA funds that will go to deserving institutions in the Arab world, including the American University of Beirut, which has long been a beacon of Western civilization in the Arab world.

Regarding the West Bank and Gaza, this year the administration is requesting $12 million for the occupied territories, a $3 million reduction from fiscal year 1989. We believe the request is insufficient to maintain the quality of aid to that region that is needed, particularly in light of the severe economic strains that are being felt as a result of the Israeli crackdown on resistance to its military occupation.

Private economic development has been a major casualty of the military occupation. The U.S. aid program to the West Bank and Gaza has assumed an even greater importance since King Hussein announced the cancellation last year of the Jordan West Bank/Gaza Development Program.

The 1.65 million Palestinians living in the occupied territories are in greater need of assistance than ever before. U.S. assistance will continue to foster economic growth in that area, and it is the tangible expression of positive U.S. concern for Palestinians.

I have listed a number of other countries in the Arab League in my testimony, Mr. Chairman, and we support the aid program to all of those, all for the purpose of fostering stronger relationships between the United States and the 21 countries of the Arab world.

Specifically on the question of aid to Israel, our concern is that human rights violations continue despite U.S. notice. We call on this committee to hold hearings into the human rights abuses such as those revealed in the country reports by the State Department and other organizations such as Amnesty International.

I have also attached as a part of my testimony a legal paper on the subject of complicity which explores the possible liability of the United States for continued human rights abuses having been noticed by the government. I enclose that paper for the committee's review as well because we believe it raises some significant questions of international law.

We also call on this committee to notice that on the issue of weapons proliferation, most Arab states have been signatories to the nuclear nonproliferation treaty, most recently Saudi Arabia, in aid of its development. We believe that the call for weapons control in the region ought to be undertaken seriously by this Government and ought to include the proliferation of nuclear weapons and onsite inspection of nuclear facilities by all parties with that capacity in the country.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Moses follows:]

STATEMENT OF GEORGE R. MOSES

US foreign aid should be allocated sensibly and in a way that benefits US national interests. In light of the severe budgetary restraints that are today the norm, we support in general the President's foreign aid requests for Arab countries. In some instances, however, we believe that the requested levels are only minimally acceptable, or far too low. Our specific recommendations for Middle East countries include the following:

o We strongly support the increased aid levels the Administration has proposed for **Jordan**. These levels are still grossly inadequate, however, given the US neglect of Jordan's urgent economic and military needs in the past few years. In light of the present situation, we urge the Committee to consider favorably a grant of PL 480 food aid.

o In the case of **Lebanon**, we believe that the $2.55 million in ESF and IMET accounts are woefully inadequate. We urge the Committee to support an increase in aid to not less than $25 million. The ASHA program for the American University of Beirut should also be supported.

o While we wholeheartedly support funding for PVOs carrying out vital programs in the Israeli-occupied **West Bank and Gaza**, we note the stark contrast this meager funding makes with the billions of dollars given to Israel itself. The $12 million requested for the West Bank and Gaza is a $3 million reduction from FY 1989. This is insufficient to maintain the quality of aid that is needed, particularly in light of the severe economic strains resulting from the Israeli crackdown on opposition to its military occupation.

o The levels of aid requested for **Egypt**, both in absolute and relative terms, are considerable, but are necessary to support US objectives and we recommend their approval.

o We urge the Committee to uphold this year's aid requests for **Oman, Morocco, Tunisia, Tunisia, Sudan, Algeria, Djibouti, Mauritania, Somalia, and Yemen.**

o The Administration has requested $3 billion in ESF and FMS aid for **Israel** for FY 1990. This amounts to an outlay by the US taxpayers of $710 for each of Israel's 4.2 million people, a figure we believe is far too high, especially in light of Israeli human rights violations in the occupied territories and its refusal to cooperate in international nuclear arms control.

o In spite of the olive branch offered by the **PLO, Israel** continues to perpetrate human rights abuses. Killings, detentions without trials, deaths of infants caused by tear gas, deportations, house demolitions and sealings, extended school closings and, most recently, barring of worshippers from holy places have all been visited upon the Palestinians.

o We call upon this Committee to fulfill its oversight responsibilities under the Foreign Assistance Act of 1961 to hold immediate hearings on documented human rights abuses in the Occupied Territories, including the necessity to explore potential US liability for Israeli abuses.

The National Association of Arab Americans (NAAA) welcomes this opportunity to present our views on the Middle East portion of the Administration's Fiscal Year 1990 foreign aid request. As the principal political organization representing the three million Americans of Arab descent, as well as a large and growing number of other Americans who share our viewpoint, NAAA strives to promote close and cordial relations between the United States and the Arab countries of the Middle East. In presenting this testimony, we seek also to help ensure that American foreign aid tax dollars are spent in the most effective and productive way possible.

In these times of fiscal austerity, the American people are rightly concerned with controlling the budget deficit and promoting fiscal responsibility. We, as Arab Americans, share and support these concerns. Nevertheless, we recognize that foreign assistance is an important policy tool which helps promote and protect US national interests. Disbursed in a fair and equitable manner, US aid can assist friendly countries around the world in strengthening their economies and meeting their legitimate defense needs. It is our view that, while the foreign aid budget should be strictly monitored and cut when necessary, US foreign assistance is an indispensable and worthy mechanism that should be allocated sensibly and in a way that benefits US national interests.

We believe that the foreign aid process has become unnecessarily cumbersome and that changes that will streamline that process and allow a more equitable distribution of US assistance to a wide range of deserving nations would be a welcome and beneficial development. In particular, we believe that all recipient countries should be expected to bear their fair share of the burdens associated with reductions in the total foreign aid package and that the practice of earmarking aid should, as a general rule, be avoided.

Congressional earmarking of more than 90 percent of security assistance monies in recent years has tied the hands of the Administration and resulted in the termination of many unprotected, but much-needed security assistance programs worldwide at a time when aggregate funding levels for US foreign aid have declined. We believe that these developments have hurt US interests in the Middle East and elsewhere.

Prospects for Peace in the Middle East

A number of auspicious events in the past year, both at home and abroad, have provided an unprecedented opportunity for peace in the Middle East. US encouragement of these developments, and a prudent allocation of foreign aid, can help to achieve comprehensive peace in the region.

Among the most welcome achievements in the past year has been the cessation of the Iran-Iraq war and its devastating carnage. US policies in the region, such as the reflagging of Kuwaiti tankers and the commitment to helping friendly Arab Gulf countries meet their legitimate defense needs undoubtedly contributed to the ending of that war. Men and women of good will throughout the world will applaud the efforts of both combatants to rebuild their economies and heal their wounds.

No less momentous have been developments in the Palestinian-Israeli conflict. Last year at this time, few would have seriously anticipated that the United States and the Palestine Liberation Organization would have opened a dialogue after years of official silence and mutual suspicion. Yet the declaration of independence of the Palestine National Council and the straightforward and unambiguous statements of PLO Chairman Yasser Arafat represented a remarkable opportunity and a contribution to peace that should be neither underestimated nor ignored. The Reagan Administration will receive high marks from history for its decision to open a long overdue dialogue -- despite criticism from those who would exclude Palestinians from participating in decisions affecting their own destiny. It is our hope that the Administration of President George Bush will continue to build upon this beginning, with the blessing of Congress, and succeed in pursuing a substantive dialogue which will ultimately lead to a comprehensive peace.

Unfortunately, Israel appears to be adamantly opposed to accepting the olive branch that has been offered to it. On the contrary, rather than seizing the opportunity, the Israeli government has chosen not only to reiterate the same self-serving and counterproductive platitudes against the PLO but also to work ceaselessly to undermine progress or abort the US-PLO dialogue altogether. At the same time, as a recent human rights report produced by the State Department attests, Israel continues to violate the human rights of Palestinians under its occupation a full 17 months into the Palestinian intifadah, and almost 22 years since it took the territories in 1967. These excesses, which will be dealt with in more detail elsewhere in this testimony, call into question the wisdom of continuing, year after year, to provide Israel with $3 billion in direct, official US aid -- and countless other benefits besides -- on a business-as-usual basis. Israel should be held to its obligations as a U.S. aid recipient in the same manner as other recipients.

The President's FY 1990 Foreign Aid Requests

As in past years, the requests for foreign assistance submitted by the Administration represent the culmination of a long process during which economic and military needs of the recipient countries are filtered through the domestic political realities and budgetary constraints facing the United States. We urge you to remember that the Administration, mindful of the need to reduce deficits, has already pared its requests for many Arab countries to the bone -- and in some cases, past.

Our specific recommendations concerning the Bush Administration's FY 1990 foreign aid requests for Jordan, Lebanon, the West Bank and Gaza, Oman, Morocco, Tunisia, Sudan, Egypt, and Israel are given below. In addition, NAAA supports the Administration's aid request for Algeria, Djibouti, Mauritania, Somalia, and Yemen.

Aid to Jordan

Long a friend of the United States, a strong and prosperous Jordan is an indispensable element in the search for peace in the Middle East. Jordan is a force for moderation and stability in the region. Its ability to continue as a central actor in the peace process depends upon the willingness of the United States to help it in meeting its legitimate and very pressing economic and military needs.

We believe, however, that the United States has not given Jordan the kind of moral and material support in recent years that it requires and deserves. This failure has contributed in part to the economic difficulties in which Jordan finds itself today and has also helped to reduce significantly Jordan's military readiness. The United States can no longer afford to neglect the close bilateral relationship with Jordan that has developed over several decades.

For this reason, we strongly support the increased aid levels the Administration has proposed for Jordan for FY 1990 and urge that they not be reduced by Congress. Full authorization and appropriation of the proposed $35 million in ESF aid is critical if Jordan is to proceed with economic reforms that are imperative to ease its balance of payments crisis and promote growth and stability. The Committee should also give strong consideration to the provision of food aid to Jordan in the coming fiscal year. Jordan has already introduced stringent import restrictions and other very painful austerity measures in order to cope with the severe economic crisis that it is facing. As is often the case, the most intense pain of economic reform is falling heavily on those least able to bear the burden. PL 480 grants could help significantly to ease that pain.

We support the $48 million in FMS assistance that has been requested for Jordan in FY 1990, although it is clear that it is nowhere near enough. This assistance will permit Jordan to service US-made equipment presently in its inventory, upgrade other essential items, and finance small quantities of urgently needed supplies. We note with regret that US military assistance levels have decreased to the point that Jordan has a negative cash flow in servicing its FMS debt burden and believe that it is crucial that the President's present request be authorized in full.

It is unfortunate that in recent years, the United States has been noticeably unresponsive to Jordan's legitimate defense needs. Indeed, the level of assistance the United States has been giving Jordan has been inadequate even to maintain the US equipment already in the Jordanian inventory, let alone provide it with replacements for obsolescent or obsolete weapons systems. The US Embassy in Jordan has estimated that a minimum of $120 million in FMS financing -- a figure considerably higher than the Administration has requested even in FY 1990 -- would be needed annually just to maintain US-made equipment there. As a result of US unwillingness to help meet its legitimate defense needs, Jordan has at times been forced to turn elsewhere for much-needed military equipment. We strongly encourage this Committee to look more favorably on Jordanian requests, both this year and in the future.

Aid to Lebanon

We are hopeful that 1990 will bring a rapid improvement of political conditions in Lebanon and that the Lebanese people will rally to form an effective and stable government as quickly as possible. Lebanon requires a new agenda that can help extricate it from its current inability to move out from between the polar absolutes that have traditionally been the boundaries of Lebanese society and toward a solution which will yield a stable, representative central government which is both reflective of all Lebanese Arab constituent groups and sensitive to their concerns. This outcome demands the unification of Lebanese intentions.

Prerequisites for success include an end to the current violence, commencement of a meaningful dialogue between all parties who can speak for various segments of the Lebanese people, and an end to foreign occupation.

The Arab-American community is uniquely positioned to help facilitate an appropriate U.S. policy to reach this end, free as we are from allegiance to any side of the conflict, but bound by our Arab heritage to a deep and abiding concern for Lebanon.

We recognize that no short-term solution is possible. Our advice to this Committee supports a long-term view of potential solutions, since any permanent solution must take account of the complexities and diversity of Lebanese society. The short-term resolutions being urged by some resemble the quick-fix solutions proposed in the past which resulted in the commitment of U.S. Marines in Lebanon and the ill-fated "agreement" which left Israel in control of southern Lebanon.

The differences of sect and class which are at the heart of the dispute must be addressed and resolved in order for a solution to produce a stable Lebanese government. Unfortunately, these differences have been exacerbated by the overlay of foreign intervention on behalf of various sects and classes which have given the conflict an international character.

Consequently, we call on this Committee to support multi-national efforts, such as the Arab League initiative, to effectuate an immediate cease-fire in Lebanon, including a concerted international effort led by the United States to reduce the flow of weapons to the various factions. Linked to the cease-fire, a peace conference must be held, to which all of the combatants are invited, that will establish a new government securing and protecting the basic rights and liberties of every Lebanese citizen. Work toward a solution to the problems of Lebanon must proceed despite the existence of other conflicts in the region.

In the short term, it is essential that the United States visibly demonstrate its deep concern for Lebanon through the delivery of humanitarian aid to Lebanon on a scale sufficient to leave no doubt as to American intentions.

While we recognize the difficulties associated with extending aid to Lebanon under present conditions there, we believe that the $2.55 million total of economic and military assistance to Lebanon that the Administration has requested is wholly inadequate. While the $12.75 million in PL-480 assistance is providing significant relief to a suffering population, a substantially greater commitment has long been needed. We therefore urge this Committee, as we have in the past, to support an increase in aid to Lebanon to not less than $25 million for FY 1990. This contribution would underscore the commitment of the US Government to Lebanon and the Lebanese people.

Although the appropriations for UNIFIL do not fall within the purview of the foreign aid program, we would like to state for the record that we fully support full US payment of its assessments for the UN peacekeeping force. The United States has not paid its full assessment for UNIFIL since FY 1985, and was $82.5 million in arrears at the end of 1988. We would like to stress the economic and military benefits that flow from UNIFIL's presence in Lebanon.

Finally, we fully support the Administration's proposals for ASHA funds that will go to deserving institutions in the Arab world, including the American University of Beirut. US aid to AUB has for many years been one of the best long-term investments in US-Arab relations and a tangible signal to the commitment of the United States to academic excellence and freedom. The American University of Beirut has for generations been a beacon of western thought and education in the Arab world, and its alumni include many of the most prominent Arab leaders and intellectuals. For many years the violence that had plagued Lebanon had spared AUB. In recent years, the steadfastness and dedication of AUB's board and faculty has enabled that prestigious and noble institution to carry on in the face of considerable hardship. We commend the US Government for continuing to provide AUB with aid throughout Lebanon's great ordeal and we urge this Committee to ensure that this vital assistance be continued.

Aid to the West Bank and Gaza

This year the Administration is requesting $12 million for the occupied West Bank and Gaza -- a $3 million reduction from FY 1989. We believe this request is insufficient to maintain the quality of aid to the region that is needed, particularly in light of the severe economic strains that are being felt as a result of the Israeli crackdown on resistance to its military occupation. Private economic development has been a major casualty of the military occupation. Palestinians have been denied permission to dig new irrigation wells, discouraged in their attempts to form cooperatives, limited in their planting of trees and vegetables, constrained from selling their produce in Israel, and turned down -- or made to wait indefinitely -- when applying for licenses to start up a business project or construct a building.

The US aid program to the West Bank and Gaza has assumed even greater importance since King Hussein announced the cancellation last year of the Jordan West Bank/Gaza Development Program. The 1.65 million Palestinians living in the occupied territories are in greater need of assistance than ever before. US assistance will continue to foster economic growth, expand employment, and improve health and welfare services, but only if aid levels are sufficient to enable the programs to endure.

Funding for the West Bank and Gaza programs has fluctuated markedly in recent years. For FY 1990, the Administration is requesting $12 million in ESF funding for West Bank and Gaza development activities -- some $3 million less than the $15 million in estimated FY 1989 obligations. These monies are proposed to fund projects that will improve health, water and sanitation, construct schools and roads, and develop agricultural credit and private sector activities. Given the desperate situation in the Occupied Territories, we believe that the Administration's request is the absolute minimum necessary to promote and preserve US interests there. We urge this Committee to authorize no less than the $12 million requested, but recommend that the figure be increased to $15 million.

Even under the current unsettled conditions on the West Bank and Gaza, the grassroots projects successfully established by the American PVOs are still operational and must be encouraged. Please bear in mind that the most prominent US presence in the West Bank and Gaza during the uprising has been the American-manufactured military equipment, tear gas, and munitions of the Israeli Army. For many Palestinians, rightly or wrongly, this equipment is the most tangible expression of America's intentions in the occupied territories. As a counterweight to this, the small aid program for the West Bank and Gaza conveys a message of hope and peace to the Palestinians which should not be underestimated.

The small aid program funding economic and social development in the West Bank and Gaza has had perhaps the highest impact of any American aid program anywhere in the world. It is designed to stimulate private sector activity to support institutions which can serve to channel funds to private borrowers for productive uses in agriculture and industry. The Administration's focus on aid to the occupied territories as a means to provide the essential tools for economic development of the local population is an integral part of the peace process.

Aid to Oman

We note with approval that the the Administration's request in ESF aid for Oman is somewhat greater than in FY 1989. The ESF request has been increased to $20 million in FY 1990 from $15 million in the previous fiscal year. We urge this Committee to uphold this year's barebones aid request for Oman, including $100,000 in IMET aid.

There are compelling economic reasons for aid to Oman. While the general decline in world oil prices has sharply reduced Oman's chief source of revenue, there remains a pressing need to develop adequate human resources and diversify the oil-based economy of the country. According to economic projections, Oman's oil resources are expected to last only another thirty years or so.

The United States and Oman have enjoyed a warm friendship and close cooperation for many years. Commanding the southern side of the strategic Strait of Hormuz, a strong and stable Oman is critical to US national interests. Gulf oil exported by sea through the Strait of Hormuz goes through shipping channels inside Omani territorial waters. Oman is actively modernizing its military to contribute to regional defense as a member of the Gulf Cooperation Council. It has also granted the United States limited peacetime and extensive emergency access to its military facilities, enabling the United States to meet threats to its vital interests and those of its Arab friends in the Gulf.

Aid to Morocco

The ties between the United States and the Arab world are exemplified by our ties with Morocco. With Morocco, the United States shares its longest treaty in existence -- a treaty that has produced more than 200 years of peace and cooperation. Morocco has played an active and positive role in the search for peace in the Middle East and nurtures many ideals cherished by the American people: religious tolerance, a respect for cultural pluralism, and a market-oriented economic philosophy.

Located on both the Atlantic Ocean and the southern half of the strategic Strait of Gibralter, Morocco has been an important friend to the United States for many years. It allows US forces access and transit rights to its military bases in certain cases and provides training areas for US forces stationed in Europe. US Navy ships make frequent calls at Moroccan ports. In 1987, Morocco signed an agreement with NASA offering it the use of an Moroccan air base for landing the space shuttle in the event of an emergency. It also provides a site for what will be a powerful radio transmitter for the Voice of America.

NAAA supports the Administration's FY 1990 request of $119.6 million for Morocco. We note with regret, however, that the total security assistance level has been reduced by more than $11 million when compared to FY 1989 allocations. In addition, ESF will be reduced by $5 million. These reductions are unfortunate.

The Moroccan economy has suffered under severe strains in recent years. It has an external debt burden which is 93 percent of its annual gross domestic product, and it has had to struggle over the years with the problems of severe drought and low demand for phosphates, its principal export. With a population of almost 25 million, a population growth rate of 2.5 percent and a per capita GNP of only $590, Morocco needs and can effectively utilize the $27.5 million in ESF and Development Assistance and $50.7 million in PL 480 assistance that the Administration has proposed.

At the same time, Morocco has shown itself determined and able to implement a program of fiscal austerity and economic adjustment under the assistance of the World Bank and the International Monetary Fund, and it has succeeded in becoming one of the most successful countries in the world in carrying out an economic stabilization program. As a result of these economic reforms, Morocco has significantly reduced its budget deficit and increased non-traditional exports. Adequate US aid is vital if Morocco is to meet its goal of achieving sustainable economic growth.

Prospects for Morocco's economy are being enhanced also by the fact that the 13 year struggle against Polisario guerrillas in the Western Sahara is nearing a negotiated settlement. Diplomatic relations between Morocco and Algeria, which had been strained for many years, have become much warmer as well.

Aid to Tunisia

The Administration's FY 1990 request of $59 million for Tunisia is somewhat greater than last year's request. We support this request, but believe that the $27.5 million in ESF and PL 480 aid is the minimum amount necessary to meet Tunisia's very pressing economic needs.

Tunisia has been a close friend of the United States since it gained independence in 1956. During the American hostage crisis in Iran, Tunisia cast the deciding vote in the UN Security Council for sanctions against Iran. In the Arab League, it has consistently been a force of moderation.

Since President Zine El Abidine Ben Ali assumed office in November 1987, in accordance with Tunisia's constitution, the Tunisian leadership has continued to follow the moderate pro-West policies that have been a hallmark of Tunisian-American ties. Under its new leadership, Tunisia has undergone considerable economic liberalization and has moved towards a more market oriented economy.

Tunisia still faces economic difficulties, including the effects of a severe drought coupled with a devastating locust invasion that took place in 1988. It has, however, demonstrated a determination to overcome them. The Tunisian government is currently implementing a comprehensive economic reform program, supported by the International Monetary Fund, that is designed to reduce its balance of payments deficit and promote the private sector. These reforms, together with an marked increase in tourism, has produced impressive results. Last year, for example, Tunisia recorded its first balance of payments surplus since 1956.

These promising economic and political developments, which are a tribute to the pride and determination of the Tunisian people, make the continuation of adequate amounts of US aid even more vital. Implementation of the ambitious reforms that have been undertaken will be facilitated by such aid.

Aid to Sudan

We support the Administration's FY 1990 request for $51.48 million in aid to Sudan as the minimum amount necessary to promote US interests. Geographically the largest state on the African continent, Sudan is of great importance to the United States. Sudan's foreign policy in the past decade has been generally sympathetic to US goals. It has lent support for US peace initiatives in the Middle East and for efforts to expand American military access and capabilities in the region.

With a population of 24 million, a per capita GNP of only $320 and an infant and child mortality rate among the highest in the world, however, Sudan is one of the least developed countries in the Arab world. In recent years it has been plagued by the dislocations and carnage of a recurring civil war, which has been a constant drain on its human and economic resources.

Given the widespread suffering that is being experienced in the Sudan, we urge the United States to move boldly in support of international efforts to bring an end to that war. We are particularly concerned that international humanitarian efforts be increased in both size and effectiveness. We agree with Senator Gordon Humphrey and Representative Frank Wolf that the United States should substantially increase funding to proven relief programs that are already in place.

We urge this Committee to authorize the Administration's request in its entirety.

Aid to Egypt

Egypt has long been an important friend of the United States and has worked consistently to promote the Middle East peace process. The courageous readiness of Egyptian officials to take risks for peace, even in the face of considerable economic difficulties at home, attests to this deep commitment. As diplomatic relations between Egypt and other Arab countries have been reestablished and improved, Egypt has reassumed a unique and invaluable role in the peace process. Egyptian leaders, for example, played a crucial role in bringing about the establishment of a dialogue between the United States and the PLO.

The total of $2.28 billion in military and economic assistance that has been requested for Egypt, a sum which includes $1.3 billion in FMS, $815 million in ESF, and $160 million in PL 480 assistance, is comparable to last year's aid levels. While we recognize that such levels of aid, both in absolute and relative terms, are considerable, we support the President's request and recommend its approval by Congress.

The case for aid to Egypt continues to be very strong. Egypt genuinely needs all of the aid that has been requested. Its 53.35 million people have, unfortunately, one of the lowest standards of living in the Arab world, with a per capita GNP of only $600. Egypt, moreover, is facing onerous economic difficulties, some of which are largely beyond its control. A decline in Egypt's oil revenues and higher world grain prices have caused substantial burdens on Egypt's troubled economy.

The close bilateral relationship between Egypt and the United States has been enhanced by the extensive economic and security ties that have developed between the two countries over the past decade. It should be noted, however, that Egypt must spend its entire ESF allotment alone on repayments to the United States on its past debt. Without such assistance, the strains placed on Egypt's economy by debt servicing requirements would be unbearable.

US assistance to Egypt plays a pivotal role in the ability of Egypt to institute much-needed but unpopular economic reforms. There is no doubt that further significant reforms are both necessary and desirable in the long run, though the burdens of such reforms on the large and growing Egyptian populace will be substantial and must be allocated equitably.

Aid to Israel

More than 17 months after the outbreak of the intifadah in the Occupied Territories, Israel continues in its vain attempt to break the spirit of the Palestinian people, who resist its occupation. Israeli abuses of human rights documented by the Department of State in the most recent Country Reports on Human Rights Practices, have drawn much-deserved criticism in the United States and abroad. Indeed, they are the single greatest obstacle to peace in the Middle East. Instead of correcting these detestable practices and seeking a political solution that will satisfy the legitimate aspirations of both Israelis and Palestinians, however, Israel and its supporters often complain that a malicious double standard exists in judging Israeli abuses of the human rights of those under its occupation. The implication, never directly stated but clearly intended, is that Israel should be excused for its excesses because human rights abuses elsewhere might involve a greater loss of human life or be found on a wider scale.

Such specious reasoning, however, should not be allowed to deflect attention from the enormity of Israel's own guilt. Nor should such an ongoing and consistent pattern of human rights violations in the Occupied Territories be permitted to continue without consequences to the levels of US foreign aid that Israel receives. We submit, Mr. Chairman, that if a double standard exists with respect to Israel, it exists by virtue of the fact that Israel continues, year after year, to receive billions of dollars of US aid -- and countless other trade and security-related benefits -- regardless of its conduct.

It is by now obvious to all, Mr. Chairman, that the intifadah is an indigenous movement that has arisen and has endured out of the despair of the Palestinian population over that detested and detestable occupation. That despair will persist -- and it will only be fed by repression -- as long as the occupation continues. Attempts by pro-Israel apologists to blame the uprising on a PLO strategy to destroy Israel are not only factual misrepresentations, they are irrelevant. Rather, it is the nearly 22-year-old Israeli policy of denying basic freedoms and repressing the Palestinian spirit in the Occupied Territories that has generated the resentment to Israeli rule that precipitated the intifadah.

While we applaud the forthrightness of elements of this year's human rights report, we believe quite strongly that Israeli human rights violations have been all too frequently ignored or excused in both the Executive and Legislative Branches of the United States Government in the past. Because of the highly visible toll in human misery, however, these abuses have gained worldwide scrutiny during the intifadah. According to the State Department's report, figures compiled from press, Palestinian and Israeli government sources indicate that 366 Palestinians were killed in 1988 alone as a result of the uprising, and 20,000 more were wounded. Credible observers, such as the Database Project on Palestinian Human Rights, have put the figure of Palestinian deaths from all causes since the intifadah began on December 9, 1987, at more than 500. Many casualties have been infants and small children. In addition, according to Israeli figures released November 28, 1988, 5,656 Palestinians were being held in prisons or detention centers, many without charges.

It should be noted that in a population of no more than 1.65 million, casualties on this scale are enormous. If proportionate casualties had been suffered in the United States, more than 54,000 Americans -- approximately the population of Asheville, North Carolina or Lawrence, Kansas -- would have died in 1988, and 2.96 million -- a figure roughly comparable to the population of Los Angeles, Metropolitan Boston, or the Metropolitan Washington Area -- would have been wounded. The number of imprisoned Palestinians cited above would be equivalent to 834,500 -- a figure greater than the population of Baltimore.

Palestinians have been killed outright by Israeli detention officials and pregnant Arab women have lost their unborn children after Israeli misuse of US-manufactured tear gas. Israel has continued to deport Palestinians from their own homeland and incarcerate others in prisons inside Israel, both practices in violation of international law. Last year, Israel destroyed or sealed at least 154 Arab homes, often of families or relatives of suspected stone throwers, for so-called "security reasons." It has carried out random, arbitrary punishments in the Occupied Territories, often without any semblance of due process and always without apology for that lack. Israel has begun to deny access to holy places in Jerusalem to Moslem worshippers. And Israeli authorities have closed Palestinian schools, particularly in the West Bank, for virtually all of the past 17 months -- a policy of deprivation that could accurately be described as part of a War on Children which will leave a bitter legacy for the entire Palestinian populace long after the intifadah has ended. These are only a few of the results of odious Israeli policies during the intifadah.

We strongly believe that the worsening human rights situation in the Occupied Territories may be attributed, in part, to our government's failure to insist that Israel uphold basic standards of decency. We clearly understand that the United States is committed to the security of Israel, but there is no conflict between that commitment and the responsibility to take concrete action against the widespread killing and maiming of human beings. On the contrary, that very commitment is the strongest argument in favor of decisive action. Israel should be put on notice that the United States will use its considerable influence to bring Israeli human rights abuses to an end, not merely take note of them.

There can be no substitute, therefore, for the complete and immediate cessation of such human rights abuses. We urge the Committee, pursuant to its oversight responsibilities under the Foreign Assistance Act of 1961, to review in formal hearings charges of human rights violations documented in the State Department Country Report on Human Rights Abuses, reports by Amnesty International and other responsible agencies. Beyond the defense of American principles and beliefs, there is a more pragmatic reason for such action. Under the legal theory of complicity, recognized in U.S. civil and criminal as well as International law, failure of the United States to take vigorous action within its power to stop these abuses tends to create a level of guilt equal to that of the perpetrators. This point was recently discussed by Mark P. Cohen in the Journal of Palestinian Studies, Vol. XXVII, No. 3, Spring, 1989. I have attached a copy of that article for reference.

Israeli calls for "elections" in the Occupied Territories should also be seen in light of the history of the occupation. Elections held in the 1970s resulted in sweeping victories by candidates with clear and unmistakable ties with the PLO. Within a few years, these popularly elected officials were deposed, maimed, or deported by Israeli authorities or armed settlers. It is only reasonable that not only the Palestinian people, but such Arab leaders as Jordan's King Hussein and Egypt's President Mubarak, question whether elections sponsored by an Israeli Prime Minister who rejects even the basic concept of "Land for Peace" can offer the Palestinians any hope for an end to years of repression. This Committee should harbor the same questions, for the fact is that the present proposal is no more than a device created by the Shamir government for the purpose of perpetuating the military occupation. Its effect will be to stall any lessening of Israeli violence against Palestinians while we in the West debate the placement of ballot boxes and colors permitted for campaign posters.

For FY 1990, the Administration has requested $3 billion in ESF and FMS assistance for Israel. This amounts to an outlay by the US taxpayers of $710 for each of Israel's 4.2 million people. Israel also receives substantial assistance under the American Schools and Hospitals Abroad program and other aid. Our generosity for Israel contrasts sharply with the meager sums of aid we provided last year to both Lebanon and the West Bank and Gaza, which need aid desperately.

This intransigence of the government of Israel is unfortunate, since a Palestinian homeland offers its best chance for peace and security. No fewer than 33 countries already members of the United Nations have populations smaller than or comparable to the Palestinian population of the Israeli-Occupied Territories (See Table 1). At the same time, the independence of Palestine has been recognized, in one form or another, by more than 70 countries.

We strongly believe that it is imperative for the Administration to adopt policies that recognize and uphold the rights of both Palestinians and Israelis. A one-sided and anti-Palestinian US approach to the Middle East undermines both Palestinian and Israeli moderates, and, in the end, defeats any real hope for peace. It also leaves Israel, one of the strongest military powers in the world, with little incentive towards making peace.

Beyond this, we feel it is important to emphasize the following additional points. First, we are puzzled by the deep concern expressed in Congress in recent months over the "introduction" of missiles by Arab countries in the Middle East. The Arab countries are not the first to introduce such missiles, nor do they have, to our knowledge, nuclear weapons capabilities. Israel, on the other hand, possesses nuclear warheads and has had the ability to deliver them with advanced Jericho missiles for some time.

We are much more concerned that Israel refuses to sign the Nuclear Non-Proliferation Treaty, and has repeatedly rejected requests to allow US officials to inspect its nuclear facilities. We believe that US and international concern should be vigorously and persistently directed towards Israel's clandestine nuclear capabilities. This Committee should actively consider conditioning further US aid on Israeli cooperation with the international nuclear arms control community by signing the Nuclear Non-Proliferation Treaty. It would then join the following Arab countries which have already signed: Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, the Yemen Arab Republic and the Peoples Democratic Republic of Yemen.

Second, Israel continues to maintain a military presence in Lebanon almost seven years after its 1982 invasion. It continues to arm and maintain a surrogate militia force, the "South Lebanon Army," in a so-called "security zone" on Lebanese soil, and has on several occasions in the past gone beyond that "security zone" to illegally harass and detain Lebanese who continue to oppose an Israeli presence in Lebanon.

There have been numerous instances this year alone of expulsions of Lebanese citizens from this "security zone" by Israel and its surrogates, which have also severely obstructed the peacekeeping efforts of UNIFIL.

This obstruction has even resulted in the deaths of UNIFIL soldiers at the hands of Israeli troops or their surrogates. We believe the US Government should do everything in its means to pressure Israel to refrain from further expulsions and end its occupation forthwith.

Conclusion

We believe that the closest possible relationships between the United States and the countries of the Arab world are an essential component for promoting US national security interests in the Middle East. These relationships, built on mutual trust and respect, will benefit all parties concerned. There can be no doubt whatsoever that the opening of the US-PLO dialogue has raised the credibility and prestige of the United States considerably in the Arab World.

The National Association of Arab Americans has for many years emphasized the need for Palestinians and Israelis to meet directly at the negotiating table. With the opening of the US-PLO dialogue, that possibility is perhaps a step closer, though the obstacles to such negotiations remain formidable. We hope that the Bush Administration, with the blessing and encouragement of the US Congress, will continue to build upon this auspicious beginning.

Table 1

UN Members with a Population Comparable to that of the Palestinian Population of the West Bank and Gaza

Country	Population	Date Admitted to UN
Albania	1,626,315	1955
Antigua & Barbuda	60,312	1981
Bahamas	223,455	1973
Bahrain	350,798	1971
Barbados	252,029	1966
Belize	143,386	1981
Botswana	941,027	1966
Comoros	385,890	1975
Djibouti	81,200	1977
Dominica	74,625	1978
Equatorial Guinea	245,989	1968
Fiji	715,375	1970
Gabon	448,564	1960
Gambia	687,817	1965
Guinea Bissau	753,313	1974
Guyana	758,619	1966
Iceland	204,930	1946
Lesotho	1,216,815	1966
Luxembourg	364,602	1945
Maldives	180,088	1965
Malta	345,418	1964
Mauritania	1,338,830	1961
Mauritius	999,945	1968
Qatar	369,079	1971
Saint Lucia	115,153	1979
Saint Vincent and the Grenadines	97,845	1980
Samoa (Western)	32,297	1976
Sao Tome e Principe	96,611	1975
Seychelles	61,898	1976
Solomon Islands	285,176	1978
Suriname	352,041	1975
Swaziland	676,089	1968
Vanuatu	111,251	1981
West Bank/Gaza	1,650,000	

U.S. Legal Involvement in Violations of Palestinian Rights

Mark P. Cohen[*]

The Palestinian intifadah that began in December 1987 has focused world attention on the Israeli military occupation of the West Bank and the Gaza Strip, and a variety of repressive tactics used by Israel to sustain that occupation. Although Palestinian outrage has been directed primarily against Israel, anger also has been vented at the United States, which many Palestinians consider complicit in Israel's misconduct. This article explores the legal question of "complicity" in international law, and its application to the U.S.-Israel relationship and the ongoing Israeli occupation.

The Customary Law of Complicity

Great power donors often advance their global interests by providing aid to a regional friend. With or without the donor's approval, the friend may use this aid to violate international law. Suppose the donor knows of these violations and continues to provide aid. Should such a donor escape legal responsibility for complicity?

Although complicity is a familiar concept in criminal and civil law, it was not always recognized in international law. But such a rule is evolving and, as this articles argues, a principle of complicity is now a part of the body of customary international law.[1]

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An effective law of complicity must: encourage states to provide aid for lawful purposes; enhance respect for international law; and hold responsible states that knowingly provide aid that plays a substantial role in an international offense.

Complicity as Distinct from Direct Responsibility

If a state itself commits an international offense, e.g., it tortures prisoners, its legal responsibility is direct. Complicity is based on facilitating a direct offense, e.g., providing a known torturer with cattle prods. Absent a direct violation, there can be no complicity.[2]

Complicity Is a Recognized Wrong in International Law

"International law is made in two principal ways—by the practice of states ('customary law') and by purposeful agreement among states (sometimes called 'conventional law,' i.e., law by convention, by agreement)."[3] Article 38 of the Statute of the International Court of Justice (ICJ) provides, in addition, that international law includes "the general principles of law recognized by civilized nations," and "judicial decisions and the teachings of the most highly qualified publicists of the various nations as subsidiary means for the determination of rules of law." The principle of complicity is found in *particular* international laws, but not, as yet, in a generic complicity statute. But complicity has been incorporated into *customary* international law by virtue of state practice, its near universal inclusion in national law, and its acceptance in scholarly opinion. And the ICJ has found state responsibility based upon aiding and encouraging another's violations of humanitarian law.[4]

1) *Complicity in National Legal Systems.* National legal systems have long recognized the offense of aiding and abetting, or complicity, and it is therefore a "general principle[ ] of law recognized by civilized nations."[5]

2) *Complicity as a Customary Norm Based on State Practice.* The United Nations' International Law Commission (ILC) 1978 Report to the General Assembly concluded that "the idea of participation in the internationally wrongful act of another by providing 'aid or assistance'—and thus, in this sense, of complicity—has now gained acceptance in international law."

Professor John Quigley agrees that since World War II, complicity has been incorporated into customary international law. He finds there are three categories of State complicity: permitting one's territory to be used for the commission of a wrongful act; taking political acts which promote a wrongful act; and providing material aid. This last category is particularly germane to U.S. complicity in Israeli wrongdoing.

(a) *Aid and complicity.* Provision of aid, economic or military, does not inherently violate international law. Yet in some circumstances, such aid assertedly gives rise to complicity in war crimes, human rights offenses, and aggression.[6]

According to Professor Ian Brownlie, for a donor to avoid responsibility, "[t]he objectives of aid must be lawful, and [moreover] aid agreements . . . should not be intended to further preparation for unlawful resort to force."[7] Elsewhere, he states that "[m]ilitary, economic, and other forms of aid to an aggressor will naturally constitute breaches of the law of neutrality."[8] U.S. domestic law provides that material aid may be used "solely for internal security, for legitimate self-defense" or for various collective defense arrangements sanctioned or requested by the UN.[9] Accordingly, the U.S. delayed the sale of F-16 jets to Israel following its 1982 invasion of Lebanon, and cutoff military aid to Indonesia for six months in 1975–76 after its invasion of East Timor.[10]

(b) *State pronouncements on complicity as international law.* Despite such instances of enforcing limitations on the use of aid, the U.S. and some other Western states have expressed doubts about ILC draft articles 25 (1978) and 27 (1980) which prohibit complicity.[11] However, none has rejected complicity in principle. And no developing state has criticized Article 27, and a number of developing and East bloc countries have expressly supported it.

Complicity has been asserted as a norm by the UN General Assembly, the Security Council, the Commission on Human Rights, and the ICJ. It appears in a number of international instruments and is consistent with national law and scholarly opinion. The fact that complicity is a new concept in international law does not preclude its application.

(i) *Knowing Assistance: The Appropriate Standard of Criminal Intent.* Article 25 conditions complicity on the knowing provision of aid in furtherance of the perpetrator's offense. The aid must be "in order to enable or help" the recipient to violate international law. Similarly, Article 27 prohibits aid "rendered for the commission of an internationally wrongful act."

Thus, draft articles and 27 properly preclude responsibility for negligence or even "reckless disregard." To do otherwise would discourage states from providing any aid for fear that it may be put to an unlawful use and result in complicity.

On the other hand, the draft articles do not condition complicity on aid that is given with a *desire* that a wrongful act be committed. It is sufficient that the donor know the aid will be used in committing the offense.

To require the donor to *desire* the offense excuses too much, and makes proof far too difficult: Absent a "smoking gun," it would be almost impossible to show that the donor wanted the wrongful act to be committed. The intent standard of the ILC Draft Articles is a proper one, that neither penalizes inadvertence nor condones knowing help to a wrongdoer.

(ii) *The Effect of Disclaiming an Unlawful Use of Aid.* If a donor expressly conditions its provision of aid on use solely for lawful purposes, is the donor free from responsibility? To exonerate a donor based on a mere statement that the aid may not be used unlawfully would elevate word over deed, enabling a donor to wink at offenses but still avoid responsibility.

As a corollary, a donor can be complicit in another state's wrongs even if those wrongs cannot be traced to the specific aid. If the aid enables the perpetrator state to free other resources to commit offenses, a stated prohibition on unlawful use should not provide the donor a legal safe harbor.[12]

(iii) *Causation: A "Substantial Factor" Test.* Aid that is irrelevant to the commission of an offense does not implicate the donor. Otherwise, even insignificant aid, given to influence the perpetrator to abide by international norms, would constitute complicity. On the other hand, requiring that the aid be the "but for" cause of the offense ignores the likely circumstance that the aid contributes to the commission of the wrongdoing.

A proper causation test for complicity is one that requires a factual determination of whether the aid is a "substantial factor" in the underlying offense.

Summary

State complicity is a recognized offense in customary international law. Its elements are: a knowing facilitation of a serious internationally wrongful act by aid or assistance that is a substantial factor in the commission of the offense.

Attaching a disclaimer that aid may not be used for illegal purposes does not immunize the donor if it knows the aid facilitates wrongdoing. A donor is obliged to take good faith steps to bring the perpetrator's conduct into compliance with international law.

U.S. Aid and Assistance to Israel

The "special relationship" which binds the U.S. and Israel has cultural, ethnic, political, economic, and military dimensions. In assessing U.S. complicity in Israeli violations of Palestinian rights, the political and, above all, the economic components of this relationship are key.

Although not without periodic tensions, U.S. political support for Israel has held steady in the face of considerable criticism from the Arab states, the third world, communist countries, and even Western Europe.[13]

U.S. economic and military assistance to Israel far surpasses that provided any other country; since 1976, Israel—comprising approximately one-thousandth of the world's population—has received about one-quarter of all U.S. foreign aid. Today, U.S. military and economic grants are approximately 11 percent of the Israeli GNP and cover over one-third of the Israeli defense budget. (In addition, under U.S. tax laws, private aid from the U.S.—upwards of $1 billion a year—receives favorable tax treatment as a charitable contribution.) In the words of a *Washington Post* editorial, the U.S. has been cast in the "role as cosponsor of Israel's occupation. . . ."[14]

Extent of U.S. Aid to Israel

Contemporaneous with Israel's victory in the 1967 War, U.S. assistance to Israel rose from a relatively modest $60 million annually (between 1952–65) to an average of $230 million (between 1966–73). But Israel was left feeling militarily vulnerable following the unexpectedly successful Egyptian and Syrian attack in October 1973. The 1973 War also severely depleted Israel's military stockpiles and drove the country deep into debt. For a variety of reasons, including the availability of unprecedented levels of U.S. aid,[15] Israel looked to accelerated militarization as the solution to its security and economic troubles, focusing its high-technology development on defense-related industries.[16]

The U.S. made military loans to Israel of $4.6 billion between 1974 and 1977, three times that provided during Israel's first quarter-century. Economic aid rose at a comparable rate.[17] Over the decade following the 1973 War, total U.S. government aid to Israel rose to an annual average of $2.32 billion. U.S. aid fueled the militarization of the Israeli economy.[18]

Since 1980, Israel has received approximately $3 billion annually in military and economic loans and grants from the U.S. Since 1981, all economic aid to Israel has come in the form of outright grants; since 1985, military assistance also has come entirely in grants or "forgiven" loans.[19]

While establishing Israel as the dominant regional power, Israel's militarization contributed to the country's economic troubles. The 1982 Lebanon War and its aftermath alone cost Israel as much as $4.5 billion.[20] By July 1984, Israel's annual inflation rate was nearly 1,000 percent.

With Secretary of State Shultz assuming a personal role in nursing the Israeli economy back to health from its 1984 crisis, the U.S. provided an additional $1.5 billion emergency grant over two years; in return, Israel agreed to implement certain austerity measures. As a result, inflation has fallen to an annual rate of about 20 percent, foreign currency reserves are being rebuilt, and capital flight has been arrested.

However, in the past two years, Israel's trade deficit has worsened and the World Bank projects that by 1990, Israel's debt service will amount to $1 billion.[21] The Palestinian intifadah is an additional drag on the economy, costing Israel $120 million per month in increased military and police expenditures, and $38 million per month in lost tourism and lowered sales, according to a U.S. embassy study.[22]

Israel is relying on its "special relationship" with the U.S. to provide a bail-out. According to Israeli prime minister Shamir, the Reagan administration "is the most friendly administration we have ever worked with."[23] In January 1987, Israel was designated for the first time by Congress and the Defense and State departments as a major non-NATO ally eligible for special programs. In March 1988, the secretary of state acceded to an Israeli request for a memorandum of agreement institutionalizing U.S.-Israeli strategic cooperation.[24]

There is little question, given the magnitude of U.S. aid and the degree of Israel's dependence, that U.S. economic and military assistance substantially affect Israeli decisionmaking.

Conditions Placed on Use of U.S. Aid

The U.S. prohibits use of its aid to Israel in the territories occupied in 1967. This is because the U.S. is opposed, as a matter of law, to fundamental aspects of the Israeli occupation.

Israelis who agree with the U.S. view that occupation policies are illegal, or, at least, ill-conceived, complain that the U.S. has been unwilling to bring economic pressure to bear on Israel to alter its policies.[25]

In 1980, Senator Adlai Stevenson unsuccessfully proposed reducing U.S. aid to Israel by the amount Israel spent on its settlements in the West Bank and Gaza Strip. "As it is," he said, " nomic support funds made available to Israel free Israeli resources for use elsewhere, including the

West Bank. There is no way to isolate or insulate this aid so that it does not provide indirect aid to Israel in the furtherance of its settlement policy."[26]

President Carter, who was greatly distressed over Israel's *de facto* annexation of the West Bank and the Gaza Strip, nevertheless promised not to use aid as "a weapon" to being Israel into compliance with international law. Similarly, the Reagan administration has been loathe to try to force the Israelis to negotiate an end to the occupation even as it persistently criticizes Israeli recalcitrance.

In March 1988, Secretary of State Shultz, who had launched a Mideast peace initiative calling on Israel to exchange "land for peace," told Israeli officials that "[t]he continued occupation of the West Bank and Gaza Strip and the frustration of Palestinian rights is a dead-end street. The belief that this can continue is an illusion."[27] The Israeli government split on the Shultz initiative, with Prime Minister Shamir's rejection trumping Foreign Minister Peres' support. The U.S. administration failed to use its considerable leverage to press Shamir to comply.

Following Shamir's visit to Washington in March 1988, *New York Times* correspondent David Shipler noted that:

> [t]he administration has rendered two possible incentives useless, in effect, by deciding not to link them to Israel's position on the [Shultz] peace initiative. One is the decision, made before Mr. Shamir's visit, to speed up delivery to Israel of 75 F-16 fighters. The other is the decision, disclosed to Mr. Shamir by Mr. Shultz on Monday, to accede to Israel's request for a memorandum of agreement that would institutionalize the close strategic cooperation that has developed between Israel and the United States in recent years.[28]

After meeting with Shamir, President Reagan stated that "those who say no to the U.S. plan . . . need not answer to the U.S. They'll need to answer to themselves and their people as to why they turned down a realistic and sensible plan to achieve negotiations."[29] With rewards in hand, and no threat of sanctions from Washington, Shamir returned to Israel triumphant.

As noted earlier, the conditioning of aid for lawful uses does not exonerate the donor if the aid enables the recipient to free other resources to commit offenses. The magnitude of U.S. aid enables Israel to continue its occupation policies even as it rejects U.S. entreaties to negotiate on a "land for peace" basis.

Israeli Offenses in the Occupied Territories

In the 1967 War, Isr militarily occupied the Sinai Peninsula, the Gaza Strip, the Golan Heights, and the West Bank (including East

Jerusalem). The UN Security Council adopted Resolution 242, "[e]mphasizing the inadmissibility of the acquisition of territory by war" and calling for the "[w]ithdrawal of Israel armed forces from territories occupied in the recent conflict."[30] Nevertheless, Israel extended its civilian administration to East Jerusalem (1967) and the Golan Heights (1971), and militarily governs the West Bank and the Gaza Strip. The U.S. considers Israel as an occupier in *all* of the territories captured in 1967 "and therefore considers, Israeli administration to be subject to the Hague Regulations of 1907 and the 1949 Fourth Geneva Convention concerning the protection of civilian populations under military occupation."[31]

Background: The Law of Occupation

An act "contrary to international law which was ordered or tolerated by the military or civil occupation authorities" violates the law of occupation.[32] The legal regime of occupation is governed by the 1907 Hague Convention on the Laws and Customs of War on Land and the 1949 Fourth Geneva Convention Relative to the Protection of Civilian Persons in Time of War.[33]

When a party enters a foreign territory and ousts the local sovereign, the law of occupation governs the conduct of the occupying power.[34] Article 43 of the Hague Regulations provides that the occupier "shall take all the measures in his power to restore and ensure, as far as possible, public order and safety, while respecting, unless absolutely prevented, the laws in force in the country."[35]

The occupation does not transfer legal title of the territory to the occupier; *de jure* (but not *de facto*) sovereignty remains vested in the occupied state or people. The occupier must act as a trustee on behalf of the ousted sovereign.

According to former U.S. Department of State legal adviser Herbert J. Hansell, although "[i]nternational law confers upon the occupying state authority to undertake interim military administration over the territory and its inhabitants[,] that authority is not unlimited." The occupier is permitted to pursue its military needs and ensure the security of the occupying forces while it provides for orderly governance and protection of the rights and interests of the inhabitants.

Israeli Violations of the Laws of Occupation

Although under the Reagan administra . official U.S. views have been modified regarding the legality of a number of Israeli practices, the

U.S. repeatedly has criticized Israel for serious violations of international law since the beginning of the occupation.[36]

1) *Illegal Civilian Settlements and Annexation:*

a) Israeli Civilian Settlements. Article 49, paragraph 6 of the Geneva Convention provides that "[t]he Occupying Power shall not deport or transfer parts of its own civilian population into the territory it occupies."[37] By its terms, Article 49 prohibits an occupier from settling its civilians in the occupied territory.

In 1968, there were 3,176 Jewish settlers on the West Bank.[38] Today, with the encouragement of the Israeli government, there are an estimated 70,000 Israeli civilians in the West Bank (not including East Jerusalem), living in approximately 150 settlements. Another 2,500 Israeli civilians have settled in the Gaza Strip. Unlike the indigenous Arab population, the settlers are subject to Israeli law;[39] access to certain lands has been restricted for their exclusive use for residential, agricultural, or industrial purposes;[40] the settlements receive large annual subsidies from the Israeli government;[41] and "individual Israelis may receive inducements [from the Government] to take up residence in the occupied territories."[42]

Israel defends the legality of civilian settlements under Article 64 of the Geneva Convention on the ground that they perform a legitimate military and security function.[43] But in 1978, U.S. State Department legal adviser Hansell concluded:

> . . . the civilian settlements in the territories occupied by Israel do not appear to be consistent with [the] limits on Israel's authority as belligerent occupant in that they do not seem intended to be of limited duration or established to provide orderly government of the territories and, though some may serve incidental security purposes, they do not appear to be required to meet military needs during the occupation.[44]

In September 1982, President Reagan announced his support for a freeze on future civilian settlements, stating that "further settlement activity is in no way necessary for the security of Israel."[45] Yet in 1981, the president had signaled a different interpretation, stating that "I disagree with the previous administration" that the settlements are "illegal."[46] The Reagan administration's lack of clarity regarding the legality of the settlements was accentuated when, on 2 August 1983, the U.S. cast an ambiguous veto on a UN Security Council resolution criticizing the settlements.[47] Since 1981, the State Department annual human rights reports have failed to characterize the civilian settlements as illegal.

But if the civilian settlements are of a permanent character and lack a legitimate security rationale, then Article 64's grant of authority to the occupier provides no justification for Israel's promotion of the settlements. Therefore, Article 49 controls, rendering the civilian settlements indefensible under international law.

b) *Annexation.* Article 47 of the Geneva Convention prohibits "in any case or in any manner whatsoever" the deprivation of rights under the Convention "by any annexation . . . of the whole or part of the occupied territory."

Under the 1947 UN Partition Plan, Jerusalem was to be an internationalized, unified city administered under the United Nations' Trusteeship Council. But as a result of the 1948 War, Israel occupied West Jerusalem and Jordan occupied East Jerusalem.[48] Then, as a result of its victory in the 1967 War, Israel occupied East Jerusalem, and the Golan Heights, previously under Syrian rule. Israel immediately moved to extend its civil administration to East Jerusalem and, in 1980, it was formally annexed. The unified Jerusalem was proclaimed capital of Israel. Israel since has extended Israeli law, jurisdiction, and administration to the Golan Heights as well.

The United States never has recognized the Israeli annexation of East Jerusalem. In fact, the U.S. remains formally committed to the 1947 UN plan to internationalize all the city. It maintains distinct consular offices in each sector of Jerusalem that report, not to the U.S. embassy in Tel Aviv, but to Washington.[49]

In 1969, the U.S. voted for Security Council Resolution 267 condemning the Israeli annexation of East Jerusalem. In March 1980, the U.S. voted for a UN resolution condemning Israel's settlement policy, "including Jerusalem."[50]

The Israeli assertion of sovereignty over East Jerusalem is contrary to the U.S. interpretation of Article 47 and to authoritative UN Security Council resolutions. Because the magnitude of U.S. aid could not but substantially influence the decision to sustain the annexation of East Jerusalem, the U.S. is obliged to take good faith steps to end the unilateral annexation.[51] This is true regardless of what ultimate arrangement the U.S. favors for Jerusalem.[52]

2) *Administrative Detention or Exile:*

a) *Administration Detention and Curfews.* Article 78 of the Fourth Geneva Convention enables an occupier, for "imperative reasons of security," to confine residents, in their home [illegible]n another facility, but such confinement is subject to a right of expeditious appeal. The security concerns must be prospective; administrative detention may not be used as a punishment for past crimes. (A person suspected of having already committed a crime should be tried in court.) The reasons for the detention must be stated and the detention ended when circumstances no longer justify it.[53]

The U.S. has expressed concern over the abuse of administrative detention procedures, noting that persons have been confined without charge, sometimes for several years.[54] In response, then Prime Minister Begin sent a letter to President Jimmy Carter in 1979 promising that full legal process would be available in administrative detention. Under the procedures established, detention sentences were subject to judicial review and could be ordered only by the two senior generals in charge of the West Bank and the Gaza Strip. However, on 22 March 1988, Defense Minister Rabin announced to the Knesset that the Begin letter was "cancelled"; judicial review of detention orders would no longer be available and local commanders would be authorized to order detentions. Appeals are available but only to a nonjudicial committee of officers. Few appeals succeed.

Article 78 also applies to the imposition of curfews. According to the U.S. State Department's 1987 *Country Report on Human Rights Practices*, "Israeli authorities often impose curfews or close off Palestinian areas on the basis that they are conducting investigations following security incidents."[55] Although these curfews are legally justifiable if imposed as a preventive measure, Palestinians frequently complain that they are invoked as a form of collective punishment.[56]

b) *Extraterritorial Transfers of Detainees.* Article 76 of the Fourth Geneva Convention provides that "persons accused of offenses shall be detained in the occupied country, and if convicted they shall serve their sentences therein." As of 2 June 1988, the Ketziot prison (Ansar III) housed 2,483 inmates, of whom 2,061 were administrative detainees and the remainder were convicted felons. Ketziot is located in the Negev Desert inside Israel proper, not in the occupied territories. Army Chief of Staff Lt. Gen. Dan Shomrom "conceded that the prison's location may be a 'contradiction' of the Geneva Convention but asserted that 'in this situation the state law takes precedence.' "[57]

c) *Deportations.* Article 49, paragraph 1 of the Geneva Convention provides:

> Individual or mass forcible transfers, as well as deportations of protected persons from occupied territory t territory of the Occupying Power or to that of any other country, occupied or not, are prohibited, regardless of motive.

According to Professor Yoram Dinstein, under Article 49, "[d]eportation is prohibited without qualifications. . . ." Article 147 characterizes "unlawful deportation or transfer" of a protected person as among the "[g]rave breaches" of the Conventions if "not justified by military necessity" and if "carried out unlawfully and wantonly."

Since 1967, Israel has expelled approximately 2,000 Palestinians from the occupied territories.[58] Under Israeli law, expulsion is a military rather than judicial procedure. If the government invokes national security, it may keep secret from the prospective deportee specific allegations, testimony, and other evidence. Appeals are made to a military advisory board and then to the High Court of Justice. No deportation order ever has been overturned.

The UN Security Council and the International Committee of the Red Cross (ICRC) both have condemned Israel's deportation policy as violative of Article 49.

The U.S. also has declared deportations of Palestinians to be in violation of Article 49.[59] On 5 January 1988, the U.S. voted for a resolution, adopted by the UN Security Council, criticizing the deportation of Palestinians.[60] On 19 April 1988, U.S. State Department spokeswoman Phyllis Oakley reaffirmed the U.S. view: "Our position is clear. We strongly oppose deportations from the occupied territories. They are counterproductive, in violation of the Fourth Geneva Convention, and will only inflame further passions."[61] The U.S. also has criticized Israel for not permitting the return of those previously expelled.[62]

3) *Torture and Other Cruel, Inhuman, or Degrading Treatment or Punishment.* Article 32 of the Fourth Geneva Convention recognizes only one exception to its ban on torture and mutilation: the medical needs of the protected person. Article 31 further provides that "[n]o physical or moral coercion shall be exercised against protected persons, in particular to obtain information from them or third parties."

"Torture or inhuman treatment," and "willfully causing great suffering or serious injury to body or health" are characterized by Article 147 as "[g]rave breaches," absent "military necessity" and when "carried out unlawfully and wantonly."

The U.S. State Department's 1987 *Country Report* notes the findings of a special Israeli commission, headed by former Israeli High Court president Moshe Landau, which found that "Shin Bet [Israel's internal security service] officials for many years had used physical and psychological pressure to obtain confessions [from Palestinians], and that they had routinely perjured themselves by denying in court that such mistreatment had occurred."[63] Yet the Landau Commission recommended that no one be punished for these past practices, and suggested guidelines for future use of limited violence against suspects.

Assistant Secretary of State for Human Rights and Humanitarian Affairs Richard Schifter has charged "clear human rights violations" resulting from excessive use of force,[64] and the U.S. has protested "regularly and consistently" the "brutalization" of Palestinian prisoners and "random beating of civilians" to "the highest level of the Israeli government."[65]

On 14 December 1987, Assistant Secretary of State for Near Eastern Affairs Richard Murphy testified before a Congressional committee that Israel's response to the Palestinian disturbances was "harsh" and "sometimes inconsistent with recognized international standards."[66] The U.S. appealed to Israel not to use lethal force in quelling the Palestinian unrest.[67]

In mid-January 1988, Defense Minister Yitzhaq Rabin announced a policy to restore order by "force, might, beatings" that reportedly resulted in "hundreds of Palestinians [being] . . . methodically beaten, many with the bones of their hands and arms broken."[68] But the U.S. abstained when the UN Security Council voted on 23 January 1988 to condemn Israeli policies of repression in the territories.[69] At an 11 February 1988 press conference, four American physicians who had just returned from a tour of hospitals in the West Bank and Gaza reported that "[i]f this were a war, much of what we observed would be considered atrocities." They found that most limb injuries suffered by Palestinians were "midshaft breaks" of hands, arms, legs, and kneecaps, which "indicates that the limb was stretched out and deliberately smashed to disable."[70]

Israeli soldiers have reported "brutal, violent behavior" by their colleagues.[71] There also have been reports of improper use of tear gas inside buildings, allegedly causing miscarriages and deaths.[72] And Israeli civilian settlers have been authorized by the minister of defense to shoot Palestinians "who are seen holding firebombs in their hands."[73]

In June 1988, Assistant Secretary of State Schifter, concerned by excessive use of force, announced that Israel and the U.S. had agreed on "a joint effort to monitor" conditions in the territories. Shmuel Goren, the chief administrator of the occupied territories, was designated as the person to whom U.S. ambassador Thomas R. Pickering should put questions.[74] Because of the substantial impact U.S. aid has on Israeli decisionmaking, if the monitoring process fails to halt practices of torture and mutilation, the U.S. is legally obliged take additional measures to bring Israel into compliance.

4) *House Demolitions and Sealing off of Rooms.* Article 33 of the Geneva Convention provides:

> No protected person may be punished for an offense he or she has not personally committed. Collective penalties and likewise all measures of intimidation or of terrorism are prohibited.
>
> Reprisals against protected persons and their property are prohibited.

Article 53 further provides:

> Any destruction by the Occupying Power of real or personal property belonging individually or collectively to private persons, . . . or to other public authorities, or to social or cooperative associations, is prohibited, except where such destruction is rendered absolutely necessary by military operations.

Israeli authorities have demolished several thousand homes of suspected terrorists, firebombers, and even rock throwers.[75] In many other instances, rooms of houses have been sealed. The demolitions and sealings are justified by Israel under Article 53 on the ground of military necessity, i.e., the home is a "terrorist base," or the demolition performs a deterrent function. Israeli officials claim that demolitions are not carried out unless the family is aware of the "terrorist" activity. But if aware, family members are chargeable as aiders-and-abettors. The demolitions or sealings "usually" occur prior to trial, or sometimes even before arrest. The determination of guilt or innocence is purely by military fiat. No compensation is paid to the home owner.

The ICRC has called upon Israel to cease further demolitions and compensate those who already have incurred a loss of property. ICRC director of the Department of Principles and Law, Jacques Moreillon, has interpreted Article 53 as requiring that a demolition be "materially indispensable . . . for the armed forces to engage in action." It does not "justify destruction as a punishment or deterrent since to preclude this type of destruction is an essential aim of this article."[76]

The ICRC reading is proper: If the act constituting a security risk already has been committed, then the military necessity giving rise to the demolition order no longer exists. (In that situation, the suspect should be arrested and tried for the particular offense at issue.)

Prior to the Reagan administration, the U.S. criticized house demolitions as violative of the Geneva Conventions. The annual *Country Reports on Human Rights Practices* continue to monitor house demolitions and sealings, but no longer draw conclusions regarding their legality. Yet, in many instances, these practices cannot be justified based upon a military imperative, and, instead, constitute a form of collective punishment expressly prohibited by Article 33.

Summary

Although there is no reason to believe the U.S. desires the wide variety of offenses committed by Israel, it nevertheless has steadily increased its aid to Israel in spite of them. These offenses all stem from the twenty-one-year occupation, and that occupation would collapse without the massive economic and military aid from the U.S.

U.S. aid has been a substantial factor in Israel's numerous violations of international law. But rather than increase pressure on Israel to comply with international law, the U.S. more often has rewarded Israeli lawbreaking and recalcitrance with additional aid.

Conclusion

In recent years a customary international law of complicity has gained increasing recognition. Complicity applies if a donor knows that its aid is being used wrongfully, and the aid is a substantial factor in the wrongdoing.

The U.S. has long criticized Israel for its occupation policy, and has condemned such practices as civilian settlements, annexations, deportations, housing demolitions, use of lethal and excessive force, and administrative detentions. The U.S. acknowledges that many of these practices are in violation of the Geneva Conventions.

The extraordinary level of U.S. aid has encouraged the militarization of Israeli society and facilitated the violation of Palestinian rights.

The law of complicity is designed to apply to just such a circumstance. The U.S. is in a unique position to use its considerable assistance to Israel as a force for the good. By creatively and flexibly employing material incentives and disincentives, the U.S. can deter Israeli wrongdoing and encourage a negotiated end to the occupation.

To date, however, U.S. aid has served primarily as an inducement to continuing breaches of international law. As a consequence, the U.S. must share responsibility for Israel's ongoing violations of international law and Palestinian rights.

1. See Quigley, "Complicity in International Law: A New Direction in the Law of State Responsibility," 77 *British Y.I.L.*, at 77 (1986) (hereinafter "Quigley"); see also I. Brownlie, *System of the Law of Nations-State Responsibility Part I* (1983), at 191 (hereinafter "Brownlie").
2. See S.H. Kadish, "Complicity, Cause and Blame: A Study in the Interpretation of Doctrine," 73 *Cal. L. Rev.* 324, 337 (1985).
3. Restatement of the Law (Third), *Foreign Relations Law of the United States* (1987), vol. 1, at 18.
4. See *Military and Paramilitary Activities in and against Nicaragua*, ICJ Rep. 14, reprinted in *International Legal Materials* (*ILM*), vol. XXV, no. 5, September 1986.
5. In common law systems, one is criminally guilty of aiding and abetting if one encourages, incites, or supports the perpetrator of a crime. In the U.S., a supplier to another of resources used to cause harm is civilly liable if the supplier knew the resource would be used wrongfully. *Restatement (Second) of the Tort* (1979), section 876 (b). Legal systems based on the Napoleonic Code also recognize complicity. See, e.g., the French Code Penal, Article 60, paragraph 2 (1810); "Fundamentals of Criminal Legislation of the USSR and Union Republics," Article 17, in W.E. Butler, *Collected Legislation of the USSR and Constituent Union Republics: Union of Soviet Socialist Republics* (1981), vol. 4, item VII–VIII, at 9.
6. For example, the U.S. has charged the Soviet Union with financially underwriting Vietnam's occupation of Kampuchea in violation of UN Charter Article 2, paragraph 5's prohibition of assisting "any state against which the U.N. is taking preventive or enforcement action." In 1983 in the wake of the ongoing Israeli intervention in Lebanon, the UN General Assembly declared "the international responsibility of any party or parties that supply Israel with arms or economic aid that augment its war potential." General Assembly Res. 38/180 (E), paragraph 1 (102nd plenary meeting), 19 December 1983.
7. I. Brownlie, *Principles of Public International Law* (3rd edn., 1979), at 259–60.
8. I. Brownlie, *International Law and the Use of Force by States* (1981), at 369.
9. See 22 U.S.C.A. § 2754 (1979); 22 U.S.C.A. § 2302 (1979).
10. See Quigley, at 90.
11. The U.S. argued that the ILC was charged only with drafting rules regarding the *effect* of a breach of an international obligation whereas Article 27 goes further, prohibiting certain conduct. The U.S. also suggested that complicity be limited to specified, serious crimes (whereas Article 27 speaks generally of assisting "an internationally wrongful act"), and challenged the analogy between international crimes and criminal responsibility under national law, noting that unlike Article 27, national criminal law is detailed and precise, and requires a court determination of guilt.
12. At the General Assembly's Sixth Committee (concerning legal matters), Thailand suggested that conditioning arms and military assistance should exonerate the donor only if it is supported by an enforcement mechanism. GAOR, 33rd Session, Sixth Committee, 38th meeting, at 5, paragraph 14, UN Doc. A/C.6/33/SR.38 (1978). Quigley adds that there should be no donor responsibility "if, stipulating against wrongful use, [the donor] supplies items that are in fact put to a wrongful use but retracts or ends the supply upon learning of the wrongful use." Quigley, at 124.

Quigley's is perhaps too exacting a standard, one which fails to take into consideration the gravity of the perpetrator's violatio[illegible]t also ignores the range of options sh[illegible] retraction or complete cutoff of aid that may be more effective in securing compliance with international law. A more practical and effective approach would be to require that the donor take good faith steps to ensure conformity with the prohibition against wrongful use. This method would allow for greater flexibility in the means available to induce compliance, while requiring that the donor continually take additional steps in the event of non-compliance.

13. Since 1967, at least 17 UN Security Council resolutions have condemned Israeli policies related to the occupied territories. Five more such resolutions have been vetoed, all by the U.S. To its credit, the U.S. also has stood against facile condemnations of Israel, such as the 1975 UN General Assembly Resolution that "Zionism is a form of racism and racial discrimination." U.N.G.A. Res. 3379(XXX), 18 November 1975, 30 UN GAOR, Supplement (No. 34), 83, UN Doc. A/10034 (1976).
14. "Seize the Moment," *Washington Post*, 31 January 1981 at D6.
15. The most important reasons for the defense-oriented redirection of the Israeli economy were the ongoing hostilities with Arab states (none of which recognized Israel's legitimacy); Israel's sparse natural resources but highly educated and technically inclined work force; and Israel's ability to gain the economic and military favor of the U.S. by enlisting, along with the Shah of Iran, in the Nixon-Kissinger strategy for containing the growth of Arab nationalism (seen as a threat to U.S. and Western oil supplies) and the spread of Soviet influence in the Mideast. The importance of Israel in the U.S. strategic design grew even larger with the overthrow of the Shah.
16. See George Abed, "Israel in the Orbit of America: The Political Economy of a Dependency Relationship," *Journal of Palestine Studies*, August 1986, at 45.
17. See Montague, "Aid and Comfort: Paying the Price of Israel's Crackdown," *Multinational Monitor*, April 1988, at 9.
18. Nixon and Kissinger sought to bask in the bi-partisan popularity Israel enjoyed in the U.S. in the early 1970s at [illegible] when the U.S. administration's Vietnam policy was the source of great social division.
19. The U.S. aid to Israel is unusual in other ways as well. Since 1985, rather than following the customary practice of spreading out aid over the fiscal year, Israel has received its entire package in the first thirty days, enabling it, rather than the U.S., to earn interest on the monies. And in contrast with the common condition in U.S. military assistance programs that aid be used to purchase U.S. goods and services, Israel is permitted to spend 15 percent of its aid domestically.

    In addition, Congress has assisted the private sale of Israel bonds in the U.S. In 1986, the IRS concluded that the 4 percent rate of interest paid on Israel bonds was artificially low and constituted a partial "gift" to the State of Israel. Because gifts are not tax deductible, the IRS sought to tax bondholders for the difference between the 4 percent they were earning and the prevailing market rate. Congress, however, included an exemption of the bondholders in the 1986 tax reform bill. See Mokhiber, "Bonds of Affection: When It Comes to Investing, Israel's Friends Lose Interest," *Multinational Monitor*, April 1988, at 25, 27. Israel bond sales were rising prior to the IRS's unsuccessful intervention, from $417 million in 1984 to $603 million in 1986.
20. Estimate of Hebrew University Economics Professor Chaim Barkai. *Jerusalem Post International Edition*, 6 July 1985, at 6.
21. See Montague, "Aid and Comfort: Paying the Price of Israel's Crackdown," *Multinational Monitor*, April 1988, at 10.
22. See *Washington Post*, "Uprising Casualty: The Quality of Life," 25 July 1988, at A17.
23. *Washington Post*, 22 April 1988, at A11.
24. In addition, there are plans to build a $300 million Voice of America transmitter in Israel, with the construction largely to be done by Israeli firms. The U.S. is considering co-financing Israel's development of an anti-tactical ballistic missile system (ATBM). And Israel will be exempted from any import restrictions in the 1988 trade bill which are inconsistent with the U.S.-Israel Free Trade Agreement.
25. *New York Times* editorial page editor Max Frankel reported in 1982 that Israelis op-

posed to the Begin Government's policies in Lebanon and the occupied territories made "[t]he startling plea . . . that the United States reduce its economic aid to their nation." Otherwise, these Israelis warned that "Mr. Begin will go on bribing the electorate . . . until his West Bank ambition—underwritten by the American taxpayer—is finally achieved." See Tivnan, *The Lobby: Jewish Political Power and American Foreign Policy* (1986), at 234–35. It is widely reported that among the Israelis making this appeal was former ambassador to the U.S. and UN, Abba Eban.

A similar sentiment was echoed by Ra'anan Weitz, the former director of the Settlement Department of the (quasi-governmental) Jewish Agency in Israel, who faulted both the U.S. government and American Jews for promoting the occupation. See *Moment* magazine, January 1987, quoted in *Israeli-Palestinian Peace* newsletter, Spring 1987, at 8.

26. *Cong. Rec.*, 17 June 1980, at S7163.
27. *Washington Post*, 6 June 1988, at A19.
28. *New York Times*, 18 March 1988, at A10.
29. *New York Times*, 17 March 1988, at A3.
30. Resolution 242 also provides for the "[t]ermination of all claims or states of belligerency and respect for and acknowledgment of the sovereignty, territorial integrity and political independence of every State in the area and their right to live in peace within secure and recognized boundaries free from threats or acts of force . . " Reprinted in Thorpe, *Prescription for Conflict* (1984), at 159 (hereinafter "Thorpe"). In the Camp David Accords, Egypt explicitly recognized Israel's legitimacy. Neither Syria, Jordan, nor the Palestine Liberation Organization has done so.
31. *Country Report on Human Rights Practices* (1987), at 1189 (U.S. Department of State) (hereinafter "Country Report").
32. Arbitration between Portugal and Germany, 2 R. Int'l Arb. Awards 1035, 1040 (1930), cited in Note, "The Need for Fundamental Change in the Law of Belligerent Occupation," 37 *Stan. L. Rev.* 1573, 1582 (July 1985).
33. The pertinent Hague Regulations, articles 42 through 56, are declaratory of existing customary international law and therefore are binding on all states, including Israel. The Fourth Geneva Convention is largely new law and, therefore, is binding only upon the signatories. Israel signed the Geneva Convention on 6 July 1951 and, in the U.S. view, is bound by the Geneva Conventions.
34. *Ibid.*, at 1574.
35. *Hague Convention of 1907*, see *ibid.*, at 1578.
36. The U.S. is also aware that reputable human rights organizations have publicly criticized Israel for violating other provisions of the Geneva Conventions and international law. This section of the article details a number of the serious violations of international law. It is not intended as an exhaustive survey of such violations.
37. *The Geneva Conventions of August 12, 1949* (I.C.R.C. 1986) (hereinafter "Geneva Conventions").
38. *New York Times*, "Jewish Settlers Seek Roots in a Hostile Land," 1 May 1988, E3.
39. Country Report (1987), at 1198.
40. *Ibid.*
41. *Ibid.*
42. *Ibid.*
43. The settlements have a religio-nationalist justification completely separate from security considerations, namely, the restoration of Jewish sovereignty over the breadth of the Biblical Kingdom of Israel. As former Prime Minister Menahem Begin explained in rejecting the contention that Israel was illegally asserting permanent dominion over the West Bank and Gaza: "You do not annex your own land. This is the land of our forefathers. You annex foreign land." "Israel and the Palestinians, Will Reason Prevail?" TV documentary, produced by John Wallach, January 1981, quotation reprinted in Thorpe, at 33. Current Prime Minister Yitzhaq Shamir has repeatedly vowed that "[w]e will never part from Judea, Samaria and the Gaza Strip." *New York Times*, "Israel Begins Campaign on C[illegible]ssue," 8 May 1988, 12. Likud efforts to make the settlements permanent facts

continue and the Ministry of Construction and Housing plans further costly development in the civilian settlements.

44. Letter of 21 April 1978, from Herbert J. Hansell, Legal Adviser, U.S. Department of State to Rep. Donald M. Fraser, Chairman, Subcommittee on International Organizations, Committee on International Relations, House of Representatives, and Rep. Lee H. Hamilton, Chairman, Subcommittee on Europe and the Middle East, Committee on International Relations, House of Representatives. Reprinted in Thorpe, at 153.
45. Quoted in Thorpe, at 36. Secretary of State Shultz, addressing the Foreign Affairs Committee on the House of Representatives on 9 September 1982, stated: "The status of Israeli settlements must be determined in the course of the final status negotiations. We will not support their continuation as extraterritorial outposts, but neither will we support efforts to deny Jews the opportunity to live in the West Bank and Gaza under the duly constituted governmental authority there, as Arabs live in Israel." (*Ibid.* at 160.)
46. Quoted in, Quigley, "United States Complicity in Israel's Violations of Palestinian Rights," 1 *Palestine Y.I.L.* (1984), at 109.
47. Ambassador Charles M. Lichenstein, Deputy United States Representative to the United Nations Security Council explained the U.S. veto as follows: "Mr. President, the draft resolution contains elements which are unacceptable to the United States, and we, therefore, were obliged to vote against it. Let me make clear, however, that we did not vote against the draft because we approve of Israel's settlement policy. On the contrary, as President Reagan said on September 1, 1982: "further settlement activity is in no way necessary for the security of Israel and only diminishes the confidence of the Arabs that a final outcome can be freely and fairly negotiated." (Quoted in Thorpe, at 131.)
48. After the 1948 War, both Jordan and Israel rejected an international r[illegible]e for Jerusalem. In 1949, the U.S. [illegible] against an Australian resolution in the General Assembly to revive internationalization. See Gerson, *Israel, the West Bank and International Law* (1978), at 212 (hereinafter "Gerson").
49. Israel moved its Foreign Ministry from Tel Aviv to West Jerusalem in 1954. Tivnan, at 38.
50. The issue of Jerusalem reemerged in the 1988 U.S. presidential campaign, with Democratic candidate Michael Dukakis—following in the footsteps of 1984 presidential hopefuls Walter Mondale and Gary Hart—supporting the movement of the U.S. Embassy from Tel Aviv to Jerusalem. Secretary of State Shultz called Dukakis' statement "shocking" and said that "if you want to proceed with negotiations, you don't wind up in effect declaring an outcome that hasn't been agreed upon yet." *New York Times*, 11 June 1988.
51. U.S. responsibility here might be challenged on the ground that control of Jerusalem is such a primordial issue to Israel that regardless of U.S. aid or assistance, Israel would sustain the annexation. Given Israel's utter dependence on the U.S., however, it would seem that the U.S. must share responsibility for the annexation.
52. Gerson suggests that Jerusalem be ruled as a "condominium," with a unified administration but separate municipal governments in the East and West, Arab and Israeli sectors. Gerson, at 214. Given that the pre-1967 partition of Jerusalem resulted in denial of access to and even desecration of holy places, and the problematic nature of unifying the city either under Israeli rule (and engendering Arab resentment) or an international trusteeship (an idea which died shortly after it was born for lack of support among the parties affected), the condominium approach makes considerable sense. This author would add that as part of a comprehensive settlement, West Jerusalem be declared the capital of Israel and East Jerusalem the capital of the new State of Palestine.
53. Dinstein, "The International Law of Belligerent Occupation and Human Rights," *Israel Y.H.R.* (1978), vol. 8, at 125–26.

54. See e.g., *Country Report* (1980), at 100; *Country Report* (1981), at 1003.
55. *Country Report* (1987), at 1192.
56. *Ibid.* Lending credence to the charge that curfews are used punitively, UN Relief and Works Agency officials have complained that Israeli officials have obstructed the delivery of emergency food, medical, educational, and sanitary services into refugee camps subject to a curfew order. *Washington Post*, 17 January 1988, A31. Article 89 of the Fourth Geneva Convention provides that "[d]aily food rations for internees shall be sufficient in quantity, quality and variety to keep internees in a good state of health and prevent the development of nutritional deficiencies." *Geneva Conventions*, at 186.
57. *Washington Post*, 3 June 1988, at A21.
58. See *New York Times*, 13 April 1988, at A6, and 8 July 1988, A4.

    Until it refused to accept them in 1969, the deportees were taken to Jordan. Subsequently, those expelled were taken to an area south of the Dead Sea and left to traverse the desert by foot into Jordan. Since 1974, Israel has been deporting persons to Lebanon. Although the Lebanese government formally opposes the practice, it has been unable to prevent it.
59. See *Country Report* (1987), at 1193.
60. See *Washington Post*, 15 January 1988. Subsequent to its vote of 5 January condemning the deportations, the U.S. (1) while expressing that "we deeply regret" the deportations, abstained on a Security Council resolution calling on Israel to permit the return of the deportees and refrain from exiling other Palestinians, *ibid.*; (2) vetoed as "redundant and inappropriate," and lacking in balance, a Security Council resolution urging Israel to return deported Palestinians to the occupied territories and calling for a Middle East peace settlement under UN auspices, *New York Times*, 4 April 1988; and (3) criticized the deportation of non-violence activist Palestinian-American Mubarak 'Awad as unjustifiable.
61. *New York Times*, 20 April 1988, at A14.
62. *Country Report* (1981), at 1002.
63. *Country Report* (1987), at 1191. The *Country Report* also notes: "Amnesty International reports that confessions are extracted from suspects by severe interrogation and that security prisoners are subject to beatings, extended solitary confinement, hooding, and cold showers. Nearly all convictions in security cases are based on confessions. Attorneys are normally not allowed to see clients until after the suspects have confessed. The International Committee of the Red Cross is also denied access to prisoners for a prescribed period, resulting in frequent charges of physical mistreatment that are difficult to corroborate or disprove."

    A West Bank human rights law group, Al-Haq, alleged in a 1987 report that Israel had "a systematic policy of abusing [Palestinian] children accused of security offenses, involving both torture and intimidation. Children are interrogated in the same way as adults have been tortured in Israeli prisons." *San Francisco Chronicle*, 4 August 1987, reprinted in *Palestine Perspectives* (November/December 1987), at 10.
64. *New York Times*, 26 June 1988, 3.
65. *Washington Post*, 30 March 1988, at A21.
66. *The Times of London*, 16 December 1987.
67. *Washington Post*, 24 January 1988.
68. *New York Times*, 29 February 1988, at A15.
69. *Ibid.* The U.S. abstention enabled the resolution to pass.
70. *Palestine Perspectives* (March/April 1988), at 5.
71. *Jerusalem Post International Edition*, 9 July 1988, at 8.
72. See *Washington Post*, 31 May 1988, at A14; *New York Times*, 14 April 1988, at A12.
73. See *New York Times*, 14 June 1988, at A1.
74. *New York Times*, "Israel Accedes to U.S. Rights Monitoring," 26 June 1988, at 3.
75. See *Washington Post*, 7 July 1988, at A32.
76. Letter by Mr. Moreillon of 25 November, 1981, quoted in Shehadeh, *Occupier's Law* (1985), at 154–55.

Senator **Sanford**. Thank you.

Senator Pressler.

Senator **Pressler**. I would like to ask a question, if I could about the development in Egypt—I do not know whether you want to respond directly, but I first went to Egypt in 1961, on a 4-H agricultural trip. And, of course, there was great hope then that the high dam would result in great economic development for Egypt.

Subsequently, the population growth has been such, or the economy has not grown, but there does not seem to be much real progress.

I went back there last January, and there are bright areas. But in terms of the conditions of the average man on the street, I did not observe very much progress.

Were my observations wrong? What is really going on, and what can we hope for?

Mr. **Moses**. Senator, as you know from your experience with Egypt, it is perhaps one of the most densely populated countries on the face of the Earth, if one confines the population to the Arab land.

The generally unsettled nature of the Middle East—the instability created by the conflict, have all been magnified in Egypt.

We believe, though, that there is hope—that the bright spots that you have seen are harbingers for the future.

Egypt is possessed of a mobile, energetic population. There is a cadre of educated Egyptians that are willing to devote themselves to their country in the development effort.

As stability is brought to the region, and as technology is brought to bear on Egypt's problems, it is our belief that the long view of United States aid will eventually be justified.

We, as you, are discouraged by the absence of quicker progress, and certainly the ups and downs regarding the expatriate employment, and the remissions of the money that that brings, have been difficult to cope with.

But the energy and the commitment remain in development. And we believe that it is worthwhile.

Senator **Pressler**. Thank you. Thank you very much, Mr. Chairman.

Senator **Sanford**. Well, thank you very much. Thank both of you for coming, and thank you for the very fine testimony. There may be some additional questions from other members of the committee. And if you would be so kind as to give us a little bit of your answers, that would help the committee in its deliberations.

I thank you for the devotion of time you have given to the preparation of this evidence and for being here.

Mr. **Moses**. Thank you, Mr. Chairman.

Senator **Sanford**. Now, may I call forth Mr. Andrew Manatos, Dr. Dean Lomis, Joseph Youssouf, and Parker T. Hart.

I will call on you in this order: Mr. Manatos, Mr. Youssouf, Ambassador Hart, and then Dean Lomis.

And I would hope that you would give us about 5 minutes of a summary of what you think we ought to be considering. Give us, of course, the opportunity to then put your full statement in the record. Give us the opportunity to ask you additional questions from other committee members, if they care to.

The timing problem is that we need to be out of here at about 10 minutes until 5. That gives everybody about twice their allotted time.

Mr. Manatos.

STATEMENT OF ANDREW E. MANATOS, PRESIDENT, MANATOS & MANATOS, REPRESENTING THE UNITED HELLENIC AMERICAN CONGRESS, THE AMERICAN HELLENIC ALLIANCE, THE PANCYPRIAN ASSOCIATION OF AMERICA, AND THE HELLENIC AMERICAN COUNCIL OF SOUTHERN CALIFORNIA

Mr. **Manatos**. Thank you, Mr. Chairman.

Mr. Chairman, I am speaking here today on behalf of the United Hellenic American Congress, the American Hellenic Alliance, the Pancyprian Association of America, and the Hellenic American Council of Southern California.

Mr. Chairman, every year the Senate, or every other year, the Senate Foreign Relations Committee has a very difficult decision in front of them, and that is, how to shape American foreign policy in the part of the Eastern Mediterranean that involves Greece, Turkey, and Cyprus. And this year is no different.

I think the difference this year is that for one of the first times in many, many years, there is an opportunity for progress. And the word that describes that opportunity for progess is the country of Cyprus.

The division of Cyprus, which is now going on 15 years—as you know, Mr. Chairman, has caused the United States great problems with its relations with the nation of Turkey, its relations with our allies--the nation of Greece as well.

These problems can be greatly reduced, if we take advantage of what is happening on Cyprus this year.

There are a number of new developments. No. 1, there is a president of the Republic of Cyprus by the name of George Vassiliou, who has gotten underway some very real negotiations with the leader of the Turkish-Cypriot community, Mr. Denktash, in cooperation with the United Nations Secretary General.

These talks have gotten the two sides problems flushed out in the kind of detail that has not been exposed in the past.

A second element that is new this year is Turkey is very much interested in becoming a member of the European Community.

And as you know, Mr. Chairman, they are not going to be able to be accepted into the European Community as long as they are occupying with their troops, the Republic of Cyprus.

A preliminary vote will be taken this December on Turkey's entry into the European Community. And that momentum should be taken advantage of by the United States.

Third, there are talks between Greece and Turkey. As you know, in recent years, the spirit of Davos, as they refer to it, has helped ease the tension somewhat. And, as you know, it was not very long ago, Turkey and Greece were on the brink of war. Those talks are being rekindled again between Greece and Turkey.

And we have a new administration, Mr. Chairman. A new administration with a great deal of expertise about the Cyprus problem. And an administration looking for new solutions.

The United States has this opportunity to move these talks ahead this year, if we push the Cyprus situation. The most effective way to push the Cyprus situation would be with the enactment of Senator Pressler's bill.

If the Congress falls short of that, there is a lot that the United States can do. And it centers around the fact that Turkey has come to enjoy the benefits of American aid.

For example, a few people realize it, but it was reported in the Turkish press very recently, that Turkey has instituted its own foreign aid program—$160 million will be leaving the country of Turkey this year. And that is a luxury Turkey could not afford without American aid.

Another luxury they could not afford, is the $200 million they spend a year to maintain their troops on Cyprus. Without American foreign aid, there is no question but that that could not happen.

Now, what arguments are there against settling the division of Cyprus?

The most frequent one you will hear is that that Turkish-Cypriots would be in danger.

But, Mr. Chairman, when the rhetoric is set aside, and the emotions are set aside, if one takes a very close look at that and counts during the difficult times between the Turks and the Cypriots, the Turkish-Cypriots and Greek-Cypriots, and counts the number of people who died—what you will find—I think to most people's surprise, is, that while it is tragic that the numbers that died on the Turkish-Cypriot side would be counted in the hundreds, the numbers that died on the Greek-Cypriot side would be counted in the thousands.

But regardless of what happened in the past, the past has got to be set aside, and we have to look to how can Turkish-Cypriots even be assured that their perception of danger can be accommodated. And I think that is taken care of by President Vassiliou's proposal to demilitarize the island of Cyprus.—16,000 Turkish Cypriots left Cyprus during the so-called bad times between the two communities. A Turkish-Cypriot leader recently has pointed out that 24,000 Turkish-Cypriots have left the island of Cyprus since Mr. Denktash has taken over.

Another way to test how dangerous it would actually be for Turkish-Cypriots is to allow Turkish-Cypriots to cross the green line to work. And you would see by the flood of Turkish-Cypriots coming over into the Republic of Cyprus to work, that this question of danger is greatly exaggerated.

The Greek-American community that I represent here today, would like to encourage in the most strong terms, the Senate Foreign Relations Committee to, this year, try to get this issue behind us, try to settle the Cyprus problem, so that our relations with Turkey, Greece, and Cyprus can greatly improve.

[The prepared statement of Mr. Manatos follows:]

PREPARED STATEMENT OF ANDREW E. MANATOS

Mr. Chairman, the Greek-Americans from across the country, whose opinion I am here to express today, feel very strongly about two particular issues at this time. The first issue involves the nation of Cyprus—the Republic of Cyprus as distinguished from the nation of Greece. Because the people of Cyprus speak Greek, and have a cultural heritage similar to Greece, sometimes we Americans tend to look to them as one and the same. It is very important that the U.S. Congress distinguishes between these two countries.

Mr. Chairman, the Cyprus problem is poised, this year, for a breakthrough and solution in a way it has never been poised before and may never be poised again. The Congress and the executive branch must take advantage of this situation and exert optimal pressure for the removal of Turkey's occupation arms. We all support enactment of H.R. 1045. The Cyprus solution now on the table protects well the Turkish-Cypriot people, the Greek-Cypriot people, and America's security interests.

I sometimes wonder what the average American would think if he or she knew the absurdity of the Cyprus situation. What would the average American say if we told him or her that the world's greatest superpower had our relations seriously injured for more than a decade with two nations which are strategically important to the United States—Turkey and Greece—because of a pseudostate with a population comparable to Macon, GA? The average American would find it hard to believe that a pseudostate containing fewer citizens than those who attend an Ohio State football game could possible have caused these kinds of problems for our great Nation for this long.

The American people would find it impossible to believe that we do not have enough influence with the nation of Turkey to get her troops off of the Republic of Cyprus given the amounts of money we give Turkey each year. Mr. Chairman, if we gave Turkey's aid over the last 5 years to all of the high school principals in America, each 1 of the 21,000 principals would receive $250,000.

Mr. Chairman, the Cyprus problem is poised for settlement. We have the power to bring about a settlement. We lack only the will. We implore the Congress to infuse that will into our Government this year.

Mr. Chairman, the second very important issue that we would like the Congress to understand this year regards the people of Greece. One out of nine of the people of Greece gave his or her life in World War II for the allied cause. We cannot forget that sacrifice. the church of the people of Greece, the Greek Orthodox Church, was the only church to frontally object to Hitler's efforts to exterminate the Jewish community. Many, many Greek people lost their lives hiding members of the Jewish community from Hitler's stormtroopers. The Greeks have been with us in every war. We cannot forget what the people of Greece did for us. The people of Greece are an important and strategic link in the southern flank of NATO. They let us keep our bases in their country when we paid our rent. Our cash aid to Greece was only $1 million a year until very recently, yet the people of Greece allowed us to keep our bases there.

The Congress would be wrong to punish the people of Greece because a Greek minister of justice, who, after being on the job for only 3 days, refused to extradite a suspected terrorist and allowed him to go free. In 1985, when Italy released suspected terrorist Abu Abbas, the Congress did not try to injure the people of Italy. In 1986, when West Germany refused extradition of Hamadei, the Congress did not try to injure the people of West Germany. In 1985 when Israel released over 100 suspected terrorist prisoners, the Congress did not try to injure the people of Israel. In 1986 when France refused extradition of Assad Kayed and Husni Katem, the Congress did not try to injure the people of France. Let us not apply a double standard to our friends of Greece.

We unjustly injured the people of Greece with a hijack travel advisory against the Athens Airport a few years ago. Our own Department of Transportation at that time listed Athens as one of the least hijack-prone airports in the world. We later found out that the weapons for the hijack of our concern got on the plane in Egypt, not Athens. But, the damage to Greece's image was done.

Americans of Greek descent are very patriotic Americans. Our No. 1 concern is the interests of our country, the United States. We have 1,000 times more contact with the people of Greece than does our State Department. We know the minds of the people of Greece better than does our Government. All of us, liberals, moderates, and conservatives, implore the Congress to treat our friends in Greece properly so that they will stay our friends and so that this longlasting and positive relationship between our two great countries can continue.

Senator SANFORD. Thank you very much. Senator Pressler.

Senator **Pressler**. I think we perhaps should hear all of the witnesses, and I have some questions that I would like to ask all of them.

Senator **Sanford**. Very good.

Mr. Youssouf.

STATEMENT OF JOSEPH D. YOUSSOUF, ESQ., REPRESENTING THE TURKISH-CYPRIOT CULTURAL AND EDUCATIONAL ASSOCIATION OF THE UNITED STATES OF AMERICA

Mr. **Youssouf**. Thank you, Senator. I would first like to thank you for the opportunity to present testimony today on what I consider to be extremely important—the foreign assistance request for fiscal year 1990.

And it is clear to me that the most concrete expression of American foreign policy is the amount of economic and military assistance that we give to other nations around the world.

In dealing with the specific manifestation of American foreign policy with Turkey, Greece, and Cyprus, this year we looked at Senator Pressler's proposed legislation.

It should come as no surprise to any Member of the Senate that I am speaking in opposition today to the position advocated by Senator Pressler in that bill.

The bill, as I understand it, proposes the withdrawal from Cyprus of all Turkish military forces in excess of the number permitted by the 1960 Treaty of Guarantee. It also advocates the return of Varosha to the Greek government of Cyprus, mandates that significant, "significant" progress toward the establishment of a "constitutional" democracy, based on the principles of majority rule, the rule of law, and the protection of minority rights.

The release and return to Greek Cypriot in American nationals, allegedly abducted by Turkish military forces in 1974, the derecognition of a Turkish Republic of Northern Cyprus, and the recantation of the Turkish-Cypriot Declaration of Nationhood, as preconditions—all has preconditions to giving aid to Turkey this year.

Now, as we analyze that bill, what appears to be the motivational factor for this legislation is an analysis that says that the Turkish-Cypriot Republic is nothing more than a puppet established by Turkey. That the Turks intervened in Cyprus illegally in 1974, and have continued to maintain an illegal military presence on the island.

The idea that the Turkish Republic of Northern Cyprus is a puppet state created by Turkey to serve its own interest is not accurate. It is entertaining, but not based in fact.

Mr. Manatos advocates that we turn our backs on the past, as we attempt to fashion the future. I say to you today, Senator, that the only way we can fashion the future is by understanding the past. Because in my opinion, the best indicator of future performance is past performance. And that is a sad, but unfortunately, very true human characteristic.

As Americans, we cherish the words of our Declaration of Independence. Our Nation's dedication to the principle of self-determination, is witnessed by that principle's inclusion in the United Nations' Charter.

Time and again, the United Nations has adopted resolutions that have talked about the rights of people to self-determination.

What you see, when you look at Cyprus today, is a fundamental exercise of a right that we, as Americans, hold sacred. And that is the right of a people to choose who is going to govern them.

We are talking about the most basic, essential concept of the social contract, Senator. We are talking about the fact that legitimacy of government is vitiated when tyranny reigns in place of law.

The history of Cyprus, and of the government of the so-called Republic of Cyprus, is a history of a government dedicated to racial, religious, and ethnic oppression.

The Turkish-Cypriot peoples did not wish to continue to endure that kind of life—1974 was the natural result of historic oppression, economic abuse, legal abuse and force applied against Turkish-Cypriots by a hostile majority intent on the concept of "enosis," or union with Greece.

Now, if we say that the troubles in Cyprus began with the Turkish intervention in 1974, we then choose to ignore the events that led to the actual destruction of the Republic of Cyprus in 1963. That kind of analysis does not do our Nation justice. It, in fact, represents the United States as having a policy predicated upon a one-sided and unfair analysis of the history of Cyprus.

It is absolutely essential that as you struggle to formulate a coherent foreign policy to deal with Turkey, Greece, and Cyprus, that you take into account the true history of that area, and understand that the Cypriot-Turks are people who have expressed their will be creating a new state.

I have examined their constitution. I have examined and talked with some of their jurists, and I know that their election was democratic. Having been there this last August, I saw a thriving incipient democracy—a country dedicated to its future, and that is a future substantially different than its past.

Now, the talks that are underway are most important, because the one thing that Greek-Cypriots and Turkish-Cypriots absolutely, positively agree on is that never again can there be a return to the violence of the past. Never again should either side be in a situation where people die because of dedication to an idea whose time has really passed. And that is the idea of union with Greece.

I ask that you take into account completely and dispassionately, the history which is so well documented that I have talked about today. I have addressed in further detail, in the written statement, these ideas.

But I do know for a fact that if the Congress adopts Senator Pressler's legislation, it will be a counterproductive step that will portray us not in at all favorable light in Turkey, and certainly not among the Turkish-Cypriot peoples.

Thank you, sir.

[The prepared statement of Mr. Youssouff follows:]

STATEMENT OF JOSEPH. D. YOUSSOUF, ESQ.

Mr. Chairman and Members of the Committee:

Thank you for this opportunity to appear before your committee to present testimony relevant to your consideration of Foreign Assistance Requests for Fiscal Year 1990 to Greece, Turkey and Cyprus.

It is clear that a concrete expression of American Foreign Policy is the amount of economic and military assistance that our nation gives to other nations around the world. It is equally clear that the conditions and stipulations attached by the Congress to Foreign Aid bills are designed to send clear messages to the recipients of our largess. Recently, a bill was introduced into the first session of the 101st Congress by Senator Pressler which is relevant to this committee's considerations because it seeks to effectuate a substantial change in American Foreign Policy toward Turkey and Cyprus. I am, of course, referring to Senate Bill 22.

This bill proposes a cessation of all military and economic assistance to Turkey until that nation has satisfied six major conditions:

1. The withdrawal from Cyprus of all Turkish military forces in excess of the number permitted by the 1960 Treaty of Guarantee."

2. The return of Varosha to the Greek Government of Cyprus.

3. Significant progress toward the establishment of a "constitutional democracy" based on the principles of majority Rule, the Rule of Law and the protection of minority rights.

4. The release and return of Greek Cypriot and American Nationals allegedly abducted by Turkish Military forces in 1974.

5. The De-recognition of the Turkish Republic of Northern Cyprus.

6. The recantation of the Turkish Cypriot Declaration of Nationhood.

If the bill which Senator Pressler advocates becomes law, the Congress will betray our nation's historic committment to the internationally recognized right of self determination. To make this il conceived legislation law will be tantamount to the adoption of the one sided and extremely biased view of Cypriot history which has been consistently advanced by the Greek and Greek Cypriot lobby in this country since the events of 1974.

At the heart of S-22 lies the proposition that the Turkish Republic of Northern Cyprus is the illegitimate creature of Turkey.

Advocates of S-22 must, of necessity, believe that the Turkish Republic of Northern Cyprus merely exists to justify Turkey's continuing military occupation of a portion of Northern Cyprus. This bill effectively reduces the Turkish Cypriot population to mere pawns in a game of territorial aggrandizement played by Turkey at the expense of Greece and the so called Republic of Cyprus.

I believe that the Turkish Republic of Northern Cyprus represents the culmination and embodiment of the Democratic aspirations of a people who had long endured racial, ethnic and religious discrimination at the hands of the Greek dominated Central Government of the Republic of Cyprus.

As Americans, we cherish the words of our declaration of Independence. Our nation's dedication to the principle of self-determination is witnessed by that principles inclusion in the United nations charter. In fact, Article 1, paragraph 2 of that document clearly states that the purposes of the United Nations are to "develop friendly relations among nations based on the respect for the principle of equal rights and self-determination of peoples..." Time and again, the United Nations have adopted declarations and resolutions which reiterate basic support for the principle of self-determination. For example, in the "Declaration on the Granting of Independence to Colonial Countries and Peoples" which was adopted on December 14, 1960 the United Nations declared:

> "All peoples have the right to self-determination; by virtue of that right they freely determine their political status and freely pursue their economic, social and cultural development".

The importance of self-determination was reiterated in the " International Covenant on Economic Social and Cultural Rights" which was adopted by the U.N. General Assembly on December 19, 1966. Yet when our Congress examines the Cyprus issue, the right of the Turkish Cypriot people to self-determination is overlooked, ignored or belittled.

In his recent-study entitled the Turkish Cypriot State Professor Metin Tamkoc, Professor of International Law in the Department of Political Science at Texas Tech University observed:

> "Granted, the right of self-determination is a noble right, serving the highest humanitarian ideals, and bringing about the liberation of the individual and group from colonial exploitation or indigenous tyranny, nevertheless its enforcement in a colonial territory inhabited by two or more distinct ethnic, religious national groups both expressing a strong desire to form their own polity and determine their own future creates a formidable dilemma".

S-22 fails to even recognize this dilemma in its blind adherence to the concept that the Turkish Republic of Northern Cyprus is merely an artificial puppet state.

S-22 also calls for the establishment of a "constitutional democracy in Cyprus based on majority rule, the Rule of Law, and the protection of minority rights..." The problem with this call for adherence to the principle of majority rule is that on Cyprus the conditions which make majority rule in a unified democracy possible have never existed. The Greeks have argued consistently and, S-22 embodies their argument that since the right of self-determination belonged to the people of Cyprus as a whole, and since Greeks constituted the "majority" and Turks the "minority", the fate of the island should be determined by what a majority of the people want. Because the principle of majority rule is a central issue in the Cyprus debate, it deserves close examination. Political democracy is, as Professor Temkoc observes, based on two propositions:

1. Political equality.
2. The consent of the governed.

In Cyprus there has never been political equality and there has never been a unanimous consent of the governed. It must always be remembered that the creation of the Republic of Cyprus was a compromise solution fashioned by a colonial power that was attempting to gracefully extract itself from the Cyprus dilemma. In order for majority rule to work, the way it works in our nation two important conditions must exist.

First, there must be a high degree of consensus among the members of a society about fundamental goals and values to be pursued by that society. Secondly, members of minority and majority groups must be able to change sides on different political issues at different times. If these two conditions do not exist, and in their place you have permanently fixed majorities and minorities, adherence to the simple concept of majority rule with full protection of minority rights is an unworkable proposition.

The basic fact that there has never been a Cypriot polity is at the core of the Cyprus problem. The history of Cyprus is a history of a land where identification with ethnic origins has never been tempered or replaced by identification with the so called Cypriot state. To this day, Cypriots identify themselves as Greek Cypriots or Turkish Cypriots. They speak different languages, they practice different religions and they have different cultural backgrounds. In our nation, a land of diverse immigrants, belief in the concept of democracy and the idealof equal opportunity has allowed us to survive and prosper. Unfortunately, we cannot realistically offer our domestic political experience as a solution to a problem as complex as that which exists on Cyprus.

I believe it is time that our government examined the Cyprus problem from a fresh perspective. Rather than tying our nations foreign policy to a one sided interpretation of the history of Cyprus as represented by S-22, we should ask certain fundamental questions regarding the Cyprus dispute and attempt to base our policy on a realistic appraisal of the rights of all parties concerned and the relative merits of their positions. The Turkish Cypriot people will not simply disappear if the United States Congress adopts S-22 and attempts to force Turkey to "derecognize" the Turkish Republic of Northern Cyprus. History teaches that freedom loving peoples do not easily abandon their freedoms.

I respectfully request this committee to carefully and dispassionately consider the Foreign Assistance Appropriations for 1990 and to ignore the ill-conceived recommendations contained in S-22. Please do not repeat the mistakes that were made in 1975 at the time the Congress imposed an arms embargo against Turkey. Please do not attempt to use the powerful influence of American military and economic assistance in support of goals which our nation should not support. I sincerely believe that if our actions are governed by adherence to our fundamental principles, our foreign policy will be effective and respected throughout the world.

Senator SANFORD. Thank you.

I would like to point out that Ambassador Hart not only was the former Ambassador to Turkey, but also, formerly, the Assistant Secretary of State for the Near East and South Asia. And we are pleased to have you here, Mr. Ambassador.

STATEMENT OF PARKER T. HART, FORMER U.S. AMBASSADOR TO TURKEY AND FORMER ASSISTANT SECRETARY OF STATE FOR THE NEAR EAST AND SOUTH ASIA

Mr. HART. Thank you, Mr. Chairman.

Let me, at the first make clear that I view the place of Greece and Turkey in our security system as one of the most—indeed the utmost—importance and the chronic problems between them as most inimical to our and to NATO's defense capability.

Together, these two valued members of the alliance have guarded for 37 years the approaches of, and access of the U.S.S.R., Romania, and Bulgaria from the Black Sea to the Mediterranean, an area over which Stalin made strenuous efforts to take full control at the end of World War II.

Any weakening of either of these two sentinels does nothing but harm to the system. It would place an impossible burden on the other—or between them—and would be a catastrophe for NATO and for us.

By the same token, for us to take sides in the episodic crises between them does absolutely nothing to advance a settlement, whether the problem is seabed rights in the Aegean, the extent of territorial waters, the airspace around islands, the fortification of islands, or flight information jurisdiction—or whether the problem is third party, notably, the well-demonstrated inability of the two

Cypriot peoples to live commingled since the British Colonial Office turned over the keys to the communities in 1960.

The new Republic, headed by Makarios, with Turk-Cypriot leader, Fazil Küchük, as vice president, was born divided in ethnicity and in spirit. It has been divided politically and territorially since 1974.

Each side has established elected parliamentary government. In other words, separation has become institutionalized. Yet, federation is in the long-term interest of both, provided separation can be reconciled with close cooperation as political equals.

Fortunately, a state of dialog now exists between Greece and Turkey, and so does a dialog between Greek-Cypriots and Turkish-Cypriots.

In January 1988, at Davos, Switzerland, the Prime Minister of Greece, Andreas Papandreou, and the Prime Minister of Turkey, Turgut Özal, held a cordial meeting, and issued formal declaration that problems between them must never come to the point of war.

They set up special commissions to deal with a variety of issues, and the possibilities in economic cooperation. They agreed to exchange visits, periodically, to check on the results.

Followup summit meetings occurred in March 1988 at NATO ministerial meetings in Brussels and during Özal's visit to Athens in June—the first such visit by a Turkish Prime Minister since 1952.

They are to meet again May 29, 1989, in Brussels. I would like a correction made in the record. I had June 18. It is incorrect. It is May 29—just before the Greek elections.

Pronouncements have been upbeat, despite the wide gap that continues between their positions on vital issues.

On Cyprus, under the auspices of the U.N. Secretary General, the heads of the Greek-Cypriot and Turkish communities, have met in New York and especially in Nicosia at the residence of de Cuellar's representative, many times in the past year.

Such frequency of talks between the two leaderships is unprecedented in Cyprus history.

These two men seem to have broken the ice personally. While the big issues remain unresolved, the two will again meet in the next few weeks in New York with Peres de Cuellar, who, more than any non-Cypriot, has a grasp of the history and details of the Cyprus problem—dating back to the days when he was mediator for his predecessor, Kurt Waldheim.

De Cuellar's patience on this issue, and his refusal to give up, is one of the great little-noticed sagas of contemporary peacemaking. We should, by all means, continue our present policy of backing him to the hilt, and not freewheeling on our own.

Furthermore, with much help from the United Nations forces in Cyprus, the island has suffered almost no intercommunal violence, and has enjoyed quite a bit of economic progress for some 14 years, whereas, in the 1960's and early 1970's, intercommunal relations were tense, and war was close between Greece and Turkey over the island on three occasions.

What does this mean for us today? I find that all three countries—Greece, Turkey, and Cyprus have taken on a less emotional, and a more pragmatic public mood. The people see no real alternative to direct negotiations. This favorable result has been assisted by economic movement, and by gradual recognition that outside interventions will not provide real solutions.

The parties have come to face each other, to explore the depths of grievances, and begin to consider how to meet them. I find that this is the best time to avoid such intervention. And I, therefore, urge, once again, that our military and economic assistance be based not upon the perceived or misperceived behavior of the parties during the sensitive negotiating sessions, but on an acceptance of NATO requirements and U.S. budgetary availabilities.

Above all, no threats against Turkey. We shall not see Turkish troops leave Cyprus until the safety of the Turkish-Cypriot community is fully assured by successful tradeoffs under de Cuellar's shrewd guidance.

By imposing congressional sanctions on Turkey, we accomplish nothing—just as we did accomplish nothing—in fact, quite the contrary, we did a lot of harm, with the embargo back in 1975.

Cyprus is a national issue for Turkey, as it is for Greece. But unlike Greece, which for a long time sought annexation, "enosis," of the island, Republican Turkey has followed the guidance of Atatürk to defend what it has—that is, as of the end of World War I—but seek no expansion.

Now, enosis appears dead, along with Grivas. And the moment has arrived for the parties to drop polemics. I believe that progress in that direction is at hand. And I, therefore, urge that we avoid punitive restrictions in granting military assistance, as well as irrelevant and unworkable ones.

It is not realistic or workable to insist on a 7-to-10 ratio of weaponry sales, or grants to Greece and Turkey. This has no basis in the demography, geography or political dynamics of the region. It simply deprives Turkey of the modernization sought by NATO planners, as the second standing force in NATO, and the first in Europe. Greece, on the other hand, is put in the position where, currently, it is 2 years behind in utilizing assistance funds from us, and has a backlog of $1 billion unspent, and could put a stop to all aid to Turkey by refraining from asking for its allotted ratio of 7.

As you have already heard from the statement to the House of Representatives on foreign operations of March 15, 1989, by Charles W. Brown, Lieutenant General, the extension of the 7-to-10 ratio requirement to the southern region amendment to cover excess United States defense equipment, otherwise available to Greece and Turkey on a no-cost basis, presents such problems that neither country can now obtain it.

I warmly recommend that such interventions be dropped.

Thank you.

[The prepared statement of Ambassador Hart follows:]

STATEMENT OF PARKER T. HART

Thank you Mr. Chairman for your courtesy in permitting me to testify once again before this committee. I would like to refer to my printed testimony of March 7, 1984 before the subcommittee on European Affairs, pages 425-429, and to reiterate the recommendations I made at that time.

I retired from Government in 1969 after 31 years and I come here today representing no one. My deep interest in the subject at hand derives from a Foreign Service career largely devoted to the Middle East, including Turkey, and from subsequent study of U.S. relations with that area in educational endeavors and business. In the case of Turkey, where I had the honor of serving as U.S. Ambassador from 1965 to 1968, my later connection with the National Defense University at Fort McNair and with the Atlantic Council has reinforced my concern over defense problems in the Eastern Mediterranean, especially the NATO southeast wing.

Let me therefore make clear at the start that I view the place of Greece and of Turkey in our security system as of the utmost importance and the chronic problems between them as most inimical to our and NATO's defense capability. Together, these two valued members of the Alliance have guarded for 37 years the approaches and access of the USSR, Romania and Bulgaria from the Black Sea to the Mediterranean, an area over which Stalin made strenuous efforts to take full control at the end of World War II. Any weakening of either of these two sentinels does nothing but harm to the system, placing impossible burden on the other. War between them would be a catastrophe for NATO and for us.

By the same token, for us to take sides in the episodic crises between them does absolutely nothing to advance a settlement, whether the problem is sea bed rights in the Aegean, the extent of territorial waters, the airspace around islands, the fortification of islands, or flight information jurisdiction; or whether the problem is third party, notably the well-demonstrated inability of the two Cypriot peoples to live co-mingled since the British Colonial Office turned over the keys to the communities in 1960. The new Republic, headed by Makarios with Turk-Cypriot leader Fazil Küchük as Vice President, was born divided in ethnicity and in spirit. It has been divided politically and territorially since 1974. Each side has established, elected parliamentary governments. In other words, separation has become institutionalized; yet federation is in the long term interest of both, provided separation can be reconciled with close cooperation, as political equals.

Fortunately, a state of dialogue now exists between Greece and Turkey, and so does a dialogue between Greek Cypriots and Turk Cypriots. In January 1988, at Davos, Switzerland, the Prime Minister of Greece, Andreas Papandreou, and the Prime Minister of Turkey, Turgut Özal, held a cordial meeting and issued a formal declaration that problems between them must never come to the point of war. They set up special commissions to deal with a variety of issues and of possibilities in economic cooperation. They agreed to exchange visits periodically to check on the results. Follow-up summit meetings occurred in March 1988 at NATO ministerial meetings in Brussels and during Özal's visit to Athens in June, the first such visit by a Turkish prime minister since 1952. They are to meet again June 18, 1989 in Brussels, just before the Greek elections. Pronouncements have been up-beat, despite the wide gaps that continue between their positions on vital issues.

On Cyprus, under the auspices of UN Secretary General, Péres de Cuellar, the heads of the Greek Cypriot and the Turkish communities, respectively, Yeoriyios Vasiliou and Rauf Denktash, have met in New York and especially in Nicosia at the residence of de Cuellar's representative, Oscar Camelion, many times in the past year. Such frequency of talks between the two leaderships is unprecedented in Cyprus history. The two men seem to have broken the ice personally. While the big issues remain so far unresolved, the two will again meet during the next few weeks in New York with Péres de Cuellar, who, more than any non-Cypriot, has a grasp on the history and details of the Cyprus problem, dating back to the days when he was a mediator for his predecessor, Kurt Waldheim. De Cuellar's patience on this issue and his refusal to give up is one of the great, little-noticed sagas of contemporary peace-making. We should by all means continue our present policy of backing him to the hilt and not free-wheeling on our own. Furthermore, with much help from the United Nations Forces in Cyprus, the island has suffered almost no intercommunal violence and has enjoyed quite a bit of economic progress for some 14 years; whereas in the 1960's and early 1970's intercommunal relations were tense and war was close between Greece and Turkey over the island on three occasions.

What does this mean for us here today? I find that all three countries, Greece, Turkey and Cyprus have taken on a less emotional and more pragmatic public mood. The people see no real alternative to direct negotiations. This favorable result has been assisted by economic movement and by gradual recognition that outside intervention will not provide real solutions. The parties have come to face each other, to explore the depths of grievances and begin to consider how to meet them.

I find that this is the best time to avoid such intervention and I therefore urge once again that our military and economic assistance be based, not upon the perceived or misperceived behavior of the parties during these sensitive negotiating sessions, but on an acceptance of NATO requirements and U.S. budgetary availabilities. Above all, no threats against Turkey. We shall not see Turkish troops leave Cyprus until the safety of the Turk Cypriot community is fully assured by successful trade-offs under de Cuellar's shrewd guidance. By imposing Congressional sanctions on Turkey we accomplish nothing. Cyprus is a national issue for Turkey as it is for Greece, but unlike Greece which for a long time sought annexation (enosis) of the island, Republican Turkey has followed the guidance of Atatürk to defend what it has but seek no expansion. Now enosis appears dead, along with Grivas, and the moment has arrived for the parties to drop polemics. I believe progress in that direction is at hand.

CONCLUSION

I urge, in conclusion, that we avoid punitive restrictions in granting military assistance, as well as irrelevant and unworkable ones. It is not realistic, or workable, to insist on a 7/10 ratio of weaponry sales or grants to Greece and Turkey. This has no basis in the demography, geography or political dynamics of the region. It simply deprives Turkey of modernization sought by NATO planners, as the second standing force, and the first in Europe, of our Atlantic Alliance. Greece is put in the position where currently it is two years behind in utilizing assistance funds from us and could put a stop to all aid to Turkey by refraining from asking for its allotted ratio of seven. As you have already heard, from the statement of Lieutenant General Charles W. Brown before the House Subcommittee on Foreign Operations, March 15, 1989, the extension of the 7/10 ratio requirement to the Southern Region Amendment to cover excess U.S. defense equipment otherwise available to Turkey and Greece on a no-cost basis presents such problems that neither country can now obtain it. I warmly recommend that such interventions be dropped.

Thank you.

Senator SANFORD. Thank you very much.
Dr. Lomis.

STATEMENT OF DEAN C. LOMIS, CHAIRMAN, AMERICAN HELLENIC INSTITUTE PUBLIC AFFAIRS COMMITTEE, REPRESENTING ALSO THE ORDER OF THE AMERICAN HELLENIC EDUCATIONAL PROGRESSIVE ASSOCIATION

Dr. LOMIS. Thank you, Mr. Chairman. I appreciate the opportunity to be here today, representing the American Hellenic Institute Public Affairs Committee, and the Order of the American Hellenic Educational Progressive Association, the largest American-Greek organization in the country.

Gentlemen, you do have my testimony, and I would like to summarize in some—both within my testimony, and some of the things that have been presented here today.

First of all, we are a country of law. And it is American law and international law that has been broken in this case, and we are bound by that law to carry out our responsibilities to both our country and to countries abroad.

It is the 1961 Military Sales Act, the 1961 Military Assistance Act, U.S. Public Law that forbids countries from attacking others who receive American aid, and international law is on top of that.

At the same time, gentlemen, Turkey and Greece—and I do believe very strongly that they go together like hand and glove in a defensive alliance—today, the southeastern flank of NATO is about as good as a paper tiger—better yet, as a paper shark.

The reason for that is because American foreign policy has failed in our region. We have allowed our laws to be taken for granted, allowed an invasion—an illegal invasion to take place, with arms labeled, "Made in America," to take over 37 percent of a country—a free country, an unaligned country, and a friend of the United States.

And it is the only country in that entire region that has helped our Nation in our troubles in the Middle East.

Go back to Beirut several times in all our problems, and you will find out that it is the only country that has helped us.

However, let me go on. The statement was made that there are, allegedly, abducted American citizens by Turkish forces. Gentlemen, please check the State Department, and you will see the letters, the lists—both from the American side and from the Turkish side, listing the names of the five Americans abducted, whom the Turks say they do not have, and they are "probably" dead.

The 1974 coup was not against the Turkish-Cypriots as it was said awhile ago. The 1974 coup was from an illegal government in Greece against a legal government of the Republic of Cyprus.

Turkey invaded at the pretext, gentlemen, if you look at the record, to bring back the legal government of the Republic of Cyprus. But they stayed on. If they really wanted to carry out what they went in for, why not go ahead and capture the guys that were responsible, like Nico Sampson, and in true Turkish style, hang them.

Democracy, northern Cyprus? In the last 15 years, 24,000 Turkish-Cypriots have fled northern Cyprus. To my great surprise, when I was not aware, when I visited Cyprus 2 years ago, Turkish-Cypriots escape from the north to find work in the south. I do not see the reverse happening.

Never again return to violence. I agree. Never again return to violence. And to forget—the past cannot be forgotten. That is very true, because the past sets the future.

However, what is that past, gentlemen? We have heard so many times that Turk and Greek cannot live together on the island of Cyprus. The Cypriot-Turks and Greeks are not Turks and Greeks of the main lands. They are Cypriots first, as we are Americans first here.

I am an American of Hellenic descent. I spent 5 years in the Air Force, and I am very proud of it. I am not here apologizing for my ethnicity; I am an American.

But, at the same time, those Cypriots are Greek-Cypriots and Turkish-Cypriots, but they are Cypriots first of all. Regardless of what has been said since 1974, the record, both literary and on tape, and I do have a tape right here, gentlemen, that I hoped we would be able to see someday together, that shows how Greek and Turk Cypriots lived and worked together.

Gentlemen, this tape shows, and I wish you would give me the opportunity someday to show it to you—in 1 or 2 minutes short, to listen to the words of Rauf Denktash, telling you that the intercommunal strife began when the Turkish-Cypriots—his own friends, placed a bomb inside the Turkish-Cypriot information office, in order to begin an intercommunal strife. It worked.

According to him, the very next thing was that the Turkish-Cypriots attacked the Greek-Cypriots, killed a number of them, and the Greek-Cypriots, unfortunately, retaliated, and the intercommunal strife was on. It was not there before 1974, before 1964, before 1963, before 1959, when these things happened.

Yes, we need the past to see it. But, let us look at the past to see where we are going.

Today we need—yes, we need to have the two different groups talk. But unless we put the pressure on—under the rule of law, we will be responsible ourselves for not having taken the opportunity to tell people of the world that either we abide by the rule of law, or we return to the law of the jungle.

I believe it was in this room a year ago, when Senator Biden of my State of Delaware, challenged, thank goodness, George Shultz, in regard to the racial apartheid in Africa.

We have the same racial situation in Cyprus. When Rauf Denktash says that the Turk cannot live with the Greek, or the Greek with a Turk, that is racism in its purest form.

Gentlemen, thank you very much for the opportunity to be here today. And we are ready for any questions you might have.

[The prepared statement of Dr. Lomis follows:]

STATEMENT OF DEAN C. LOMIS

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to appear before you today on behalf of the American Hellenic Institute Public Affairs Committee, Inc. and the Order of AHEPA. We oppose as contrary to the national security and foreign policy interests of the United States in the eastern Mediterranean the administration recommendation of $550 million in military aid and all economic aid for Turkey. We support $350 million for Greece and a 1-1 ratio in aid to Greece and Turkey in recognition of the reality that a military balance must be maintained between these two allies. We support continuing the $15 million in humanitarian aid for Cyprus as long as the Turkish occupation presence remains, in lieu of the $7 million proposed by the administration.

This year, given that we face serious cuts in domestic and military spending and in support of the rule of law and U.S. national security interests, we strongly support S. 22. This bill was introduced by Senator Larry Pressler (R-SD) and is co-sponsored by Senator Howell Heflin (D-AL). S. 22 conditions all U.S. military and economic aid to Turkey on the following requirements:

1. all Turkish military forces, in excess of those permitted by the 1960 Treaty of Guarantee, and all illegal Turkish colonists are withdrawn from Cyprus;

2. The city of Famagusta/Varosha has been returned to the Government of Cyprus for the resettlement of refugees;

3. significant progress in UN negotiations toward a constitutional democracy based on majority rule, the rule of law, and the protection of minority rights;

4. Turkey has released and returned the 5 kidnapped Americans and 1614 missing Greek Cypriots;

5. Turkey withdraws recognition of the so-called "Turkish Republic of North Cyprus"; and

6. Turkey takes steps to reverse the illegal declaration of an independent state in northern Cyprus.

We also seek the renunciation by Turkey of its illegal claims in the Aegean or the submission of its claims to the International Court of Justice at the Hague.

As American citizens, we cannot support cutting bone from the American force structure and throwing it to Turkey. Given that Turkey illegally used U.S. arms to invade Cyprus and today uses U.S. military aid to continue its illegal occupation of Cyprus and uses economic aid to support its colonization of northern Cyprus, and given what is in reality Turkey's limited value to NATO, we urge you to support S. 22.

Congress has acted boldly to close some 90 obsolete military bases in the U.S. Congress should consider similar bold action regarding obsolete bases overseas such as those in Turkey.

AHIPAC and AHEPA strongly urge a long overdue critical review of the United States-Turkey bilateral relationship.

What is Turkey's true contribution to the deterrent capabilities of NATO? How much damage has been inflicted on NATO by Turkey' continued illegal occupation of Cyprus and illegal demands in the Aegean? What is the wisdom of our economic and military aid to Turkey in light of Congress's current examination of U.S. foreign aid programs?

Is it sensible and right for us to subsidize Turkey's occupation of Cyprus? According to Former Undersecretary of State William Schneider, in testimony before Congress in 1984, it cost $9,000 per year to maintain one Turkish soldier. There are 35,000 Turkish soldiers on Cyprus. The Turkish occupation of a friend of the U.S., Cyprus, costs U.S. taxpayers well over $350 million per year. And how much does it cost us to support the 60,000 Turkish colonists? Not one nickle, not one dime of U.S. taxpayer money should support such a despicable enterprise.

But the Cyprus issue involves more than how our tax-dollars are being spent. Cyprus is also a question of whether our alliances are strengthened or weakened when states like Turkey invade and occupy independent nations and friends of the United States. As former President Ronald Reagan set forth in his State of the Union Address on January 23, 1983, "responsible members of the world community do not threaten or invade their neighbors, and they restrain their allies"

On July 7, 1988, President George Bush stated that:

> We seek for Cyprus a constitutional democracy based on majority rule, the rule of law, and the protection of minority rights.
>
> Efforts to resolve the long-standing differences between Greece and Turkey on this and other issues will be good for them, good for us, and good for the critical southern flank of NATO.

> America can be the catalyst for peace between Greece and Turkey. I want to see a NATO whose southern flank remains strong and united. I want to see a democratic Cyprus free from all threat of war.

Towards these ends we at AHIPAC and the Order of AHEPA support S. 22. This bill is nothing more, and nothing less, than a call for the support of the rule of law. We are asking you to be faithful to fundamental American principles and to justice, and to carry out the rule of law.

The Turkish military occupation forces, now 35,000 strong, have occupied 37% of Cyprus for 15 years. During the 1974 invasion 5 Americans were abducted by Turkish troops and 1614 Greek Cypriots were taken as prisoners. We know of this Committee's concern but we urge a renewed and strengthened effort to have Turkey account for these persons.

Gentlemen it is clear that the Turkish strategy is to prolong the talks until re-unification is impossible. The Turkish government is wielding time as a sword that continuously cuts the ties between the Cypriot peoples. The Cypriot people deserve the chance to create a constitution which will meet their security concerns, protect their rights, and promote the re-establishment of human relations.

It is obviously absurd to divide an island nation of 650,000 people. If this occurs, Cyprus will be economically crippled; the result will be social and political instability that would threaten western interests. Turkish propaganda has drowned out the voice of those Turkish Cypriots who have protested the occupation and who seek a re-unified Cyprus.

Turkish Cypriot opposition leader Ozker Ozgur has frequently spoken out against the oppression his people have suffered from Turkish soldiers and colonists. As recently as April 14 of this year he accused Turkish Prime Minister Turgut Ozal and Turkish Cypriot leader Rauf Denktash of trying to destroy the Turkish Cypriot community and of trying to turn northern Cyprus into a Turkish province: "We are against the use of peasants and workers from Turkey for the destruction of the identity of the Turkish Cypriots and in rendering the Turkish Cypriots ineffective as a communal entity." Mr. Ozgur has run out of patience, but AHIPAC has been making this point for a decade and a half.

This obscene act of colonization, a violation of the Geneva Convention of 1949, Section III, article 49, and contrary to U.S. interests, is sustained by U.S. tax dollars. The U.S. Foreign Assistance Act of 1961, as amended, and the Foreign Military Sales Act prohibit Turkey from transferring U.S. arms to Cyprus. The matter is simple: the only way to ensure that our tax dollars will not support the occupation and division of Cyprus is to end that occupation. And that occupation can only be ended through direct U.S. effort, by insisting that Turkey do so.

As Turkey's principal supplier of military and economic aid, the U.S. is in a unique position to take the initiative to achieve a just and lasting settlement of the Cyprus problem. The U.S. prods other allies on many issues, but treats Turkey like a sacred cow. We press Japan on trade matters, Germany on missile modernization, Israel on talking to the Palestinians, yet we seem afraid to alienate Turkey.

In 1956 President Eisenhower enforced the rule of law against three important friends, Britain, France, and Israel, and halted the invasion of Egypt. What President Eisenhower said then still applies today: "we cannot have one foreign policy for our friends and one for our enemies."

All over the world, some of the most notorious military occupations are coming to an end. The Soviets have left Afganistan, Cuba is withdrawing from Angola, and Vietnam is leaving Cambodia, yet Turkey, a NATO ally, remains in Cyprus after 15 years.

Cyprus is an important friend of the U.S. Former U.S. Ambassador to Cyprus Richard Boehm has stated publicly that Cyprus' record in combating international drug-trafficking and terrorism is impressive and should serve as a model for all other nations. It should not be forgotten that Cyprus stood by the United States during each of our most painful recent experiences in the Middle East.

Some U.S. officials are pinning all their hopes for a solution on the U.N. sponsored talks. But these people mistakenly refer to Javier De Cuellar as a mediator. The Secretary General is not mediating the Cyprus dispute. He has merely granted the two sides his good offices. With no mediator, with no arbiter, the problem will remain unresolved until the U.S. uses its considerable influence. We agree with the recent staff report of the Senate Foreign relations Committee that "a more active approach would reinforce, not undercut, the U.N. Secretary General's effort."

Turning now to Turkey. Turkey may be a convenient ally, but she is not a vital ally. We need not tolerate her illegal actions.

Turkey's unreliability with respect to the United States and our allies, its inhumane practices against Armenians, Kurds, Cypriots, their fellow Turks--as documented by Amnesty International's reports on torture in Turkey--and its aggressive actions against its neighbors are indeed indisputable historical facts, matters of record, and should be objects of our concern. Some of the findings of AHIPAC'S May 6, 1989 conference on Turkey's Violations of Human Rights and U.S. Foreign Policy will be included in an appendix to this written statement which will be submitted to the Committee for the record.

Turkey's violations of treaties and other actions demonstrating its unreliability as an ally and its cooperation with the Soviet Union are set forth in the appendix.

According to Dr. De Vallon Bolles, a strategic analyst, "there are two Turkeys--the one of myth and the one of reality." The Turkey of myth is strategically vital; in reality it is at best convenient to have Turkey on our side. Dr. Bolles also points out that contrary to popular opinion, NATO does not need Turkey to stop the Soviet fleet at the Dardanelles. We can also stop them at a number of critical points in the Aegean and the Mediterranean, using the Sixth Fleet and the priceless naval base at Suda Bay, Crete, and the airbases at Iraklion, Crete, and elsewhere.

Some view Turkey as vital to stopping a Soviet thrust towards the Persian Gulf, or for action in the Middle East. But Turkey has refused to let us operate in the Middle East from Turkish bases. Most of Turkey's army, its best units in fact, is arrayed against a NATO ally, Greece, and in the occupation of Cyprus, and not against the Soviet Union or states hostile to the U.S. The prospect is low that Turkey would abandon its traditional policy of neutrality and engage the Soviet Union during a major crisis on the central front of NATO. Further, Turkey would have to consider that the Turkish army would be tied down by arms Moscow would supply to Kurdish and Shi'ite minorities in southeast Turkey.

Southeast Turkey is one of the world's most unstable regions, where emergency rule is still in force and FBIS reports almost daily violence and terrorism. The rest of Turkey is not much more stable. Between 1960 and 1980 the military seized control of Turkey three times. Each dictatorship was more extensive than the last. Today, with the military having ultimate control and still calling most of the shots under a quasi-civilian government, Turkey's inflation rate of 86%, (as reported by the IMF) provokes thoughts of further unrest.

It should be noted that prominent Turkish officials have threatened to pull Turkey out of NATO if she is not allowed to join the European Community. The proper question to ask is, "in a real crisis will Turkey be helpful?" All previous facts and current indicators are very discouraging.

Is Turkey a sturdy basket in which to place so many military and economic eggs? Have we not learned any lessons from past experience, Iran, Vietnam, Ethiopia, etc.?

In closing, Mr. Chairman and members of the Subcommittee, Turkey's actions which have been harmful to the U.S. and the Western alliance, and her instability, call for a critical review and reassessment of the United States-Turkey bilateral relationship and of Turkey's role in NATO.

Greece, for all the misunderstandings of the past few years, remains a steadfast ally. There is in Greece a permanent reservoir of good will and solidarity with the U.S. 90% of all Greeks have a relative in the U.S. (Harry J. Psomiades and Alice Skourby, editors, The Greek American Community in Transition, Pella, 1982.) These are concrete ties that don't exist with any other ally. Disputes and governments come and go, but the NATO alliance, one of the most successful alliances in the history of mankind, endures because of the values, principles and democratic traditions we share. For these reasons and for many others, we respectfully request that you support S. 22.

APPENDIX A

TURKEY'S COOPERATION WITH THE SOVIET UNION AND OTHER STATES HOSTILE TO THE UNITED STATES

(1) Turkey is the largest recipient of Soviet aid outside the Warsaw Pact.

(2) Turkey has refused to allow U.S. military aircraft to fly any closer than 200 miles from the Soviet border.

(3) Over NATO objections, Turkey has allowed to date three aircraft carriers, the Kiev, the Novorosiisk, and the Moskva, passage rights through the Dardanelles into the Mediterranean in violation of the Montreux Convention of 1936;

(4) Turkey has further damaged NATO by vetoing NATO's efforts to put military bases in various Greek islands in the Aegean for defensive purposes against the Soviet Navy.

(5) In July of 1988 it was disclosed that Turkey was selling to Pakistan nuclear plant accessories, such as converters and reprocessed fuel, which could be used to produce a nuclear device, against U.S. wishes. There is concern that Pakistan would share its "Islamic bomb" with Turkey and with terrorist states.

(6) At the opening session of the 1987 U.N. General Assembly, Secretary of State George Shultz asked the Turkish Foreign Minister that Turkey "restrict its airspace, denying overflight rights to Libyan and Iranian aircraft carrying chemical weapons components and sea mines to and from Tehran. Turkey declined the request.

(7) It has been alleged that Lieutenant Colonel Oliver North "paid out a total of $147,000 to a number of people in the 'sixteenth county'" considered in U.S. congressional reports to be Turkey, to approve overflight of Turkish territory.

(8) In the Spring of 1986, when the U.S. complained to Turkey about allowing Soviet aircraft to pass through the Dardanelles, the official Turkish response as reported by FBIS on March 24, 1986, was that the U.S. is not a party to the Montreux convention and, therefore, it has no business becoming involved. The text concluded that the U.S. should not attempt to interfere, because: "it will have no luck."

(9) The July 22, 1983 edition of Newsweek reported that the Turkish government had refused repeated American requests for the installation of antennas in Turkey for eleven transmitters used to broadcast the programs of the Voice of America, Radio Liberty, and Radio Free Europe.

(10) In January, 1981, President Carter tried to obtain a commitment from Turkey for the use of Turkish territory for operations in case of conflict in the Middle East. On January 20, 1981, The New York Times reported that Turkey was not in favor of "the United States using Turkey for conflicts not affecting Turkey." In the Spring 1983 issue of Foreign Policy, Harry Shaw stated that Turkey is unlikely to become involved in, or allow U.S. forces to use Turkish territory in a Middle East war that does not threaten her territory directly.

(11) In 1980, Turkey refused to permit the U.S. to use the NATO base at Diyarbakir in eastern Turkey as a transit point for the purpose of conducting a rescue mission into Tehran, Iran, to free the American hostages being held in that city. The distance from Diyarbakir to Teheran is 450 as opposed to the actual route taken, which was over 900 miles.

(12) In 1979 Turkey refused the U.S. request to allow U-2 intelligence flights (for Salt II verification) over Turkish airspace stating it would have to be cleared with

Moscow. This position was voiced over a period of months by Turkish officials, the opposition parties and the *Chief of Staff, General Evren, now the President of Turkey*. (see *The Washington Post* and *The New York Times*, April - September 1979).

(13) Also in 1979 Turkey refused to allow the U.S. to send 69 U.S. Marines and six helicopters to Turkey for possible use in evacuating Americans from Iran and protecting the U.S. embassy in Teheran.

(14) In the 1977-78 conflict in Ethiopia Turkey granted the Soviets military overflight rights to support the pro-Soviet communist insurgency led by Heile Mengitsu Mariam. He eventually established a Marxist dictatorship directly dependant upon the Soviet Union. Antonov-22 aircraft ferried Cuban troops, Soviet weapons and supplies to Ethiopia. The Soviets ferried in 2,000 Cuban troops by the end of the first week in December, 1977. By late December, 17,000 Cuban troops were in Ethiopia. The Cuban troops were immediately moved to the fighting front against Somali and anti-Communist Ethiopian forces. They eventually turned the tide in favor of the communists.

(15) During the 1973 Mid-East War, predating the Turkish invasion of Cyprus by one year, Turkey refused the United States military overflight rights to resupply Israel while granting Moscow military overflight rights to resupply Syria and Egypt and granted the U.S.S.R. overland military convoy rights to resupply Syria;

Edward Luttwak, the noted strategic analyst, stated the obvious regarding Turkey's cooperation with the Soviet military:

> No longer presenting a direct threat the the integrity of Turkish national territory, and no longer demanding formal revision of the Straits navigation regime, the Soviet Union has nevertheless successfully exercised armed suasion over Turkey, even while maintaining a fairly benevolent stance, which includes significant aid flows. Faced with a sharp relative increase in Russian strategic and naval power, and eager to normalize relations with their formidable neighbor, the Turks have chosen to conciliate the Russians and have been able to do so at little or no direct cost to themselves. *It is only in respect to strategic transit that Turkey is of primary importance to the Soviet Union, and this is the area where the concessions have been made*. Examples of such deflection, where the Russians are conciliated at the expense of western rather than specifically Turkish interests, include the overland traffic agreement (unimpeded Russian transit to Iraq and Syria by road), the generous Turkish interpretation of the Montreux Convention, which regulates ship movements in the Straits, and above

> all, the overflight permissions accorded to Russian civilian and military aircraft across Turkish air space.
>
> The alliance relationship in NATO and with the United States no doubt retains a measure of validity in Turkish eyes, but it is apparent that its supportive effect is not enough to counteract Russian suasion, especially since the coercion is latent and packaged in a benevolent, diplomatic stance. (Luttwak, The Political Uses of Sea Power, Johns Hopkins Press, 1974, pp. 60-61).

The Honorable Claiborne Pell
Chairman
Senate Committee on Foreign Relations
U.S. Senate
446 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Pell:

I respectfully request that this letter be included in the record of the Committee on Foreign Relations' hearing on the reauthorization for the U.S. Information Agency (USIA), held this morning. This letter speaks to concerns of the International Exchange Association (IEA) regarding the citizen and youth exchange activities of USIA, and is intended to assist your Committee with its deliberations regarding the USIA authorization for fiscal years 1990 and 1991.

Members of the international citizen and youth exchange community, including IEA's 47 member organizations (membership list attached), the 1.25 million volunteers whose time and resources we are all so dependent on, and 2,500 professional staff working to facilitate these exchanges at our organizations, have been most appreciative of your many years of support for our activities. Your commitment to reestablishing, with the bipartisan support of your colleagues on the Foreign Relations Committee, the strength of USIA exchange programs earlier this decade has left all of us in the exchange community in your debt.

We are pleased with the appointment of the new USIA director, Bruce Gelb, and are encouraged by his understanding of public diplomacy through exchanges. We believe Mr. Gelb will be able to provide excellent leadership for international exchanges and we look forward to working with him during his tenure at USIA.

We are concerned, however, that USIA's exchange activities funded through the Private Sector Programs Office may suffer disproportionate damage during the current fiscal crisis. In response to your question regarding where USIA would be proposing cuts to meet the new budget compromise, Mr. Gelb reported that the Agency would include a reduction in funding for Private Sector Program activities in the initiatives area. While I am encouraged that existing core program funding is therefore not in jeopardy, I believe it is important for you and the Foreign Relations Committee to recognize that a cut in available funding for new innovative citizen exchanges will have a dramatic negative impact on U.S. public diplomacy efforts and the initiation of new community-based exchange programming within the United States.

IEA's members estimate that for each U.S. dollar spent by the federal government on private sector exchanges, they are able to generate conservatively 12 times as much value in volunteer efforts, privately raised funds, and participant contributions to these exchange activities. That translates a possible cut of $1 million to the Private Sector Programs into a $12 million cut in the value of exchange activities within the community. I believe a reduction of even as small an amount as $1 million will have a very chilling effect on the American exchange community and the extensive network of U.S. citizens who look to the U.S. Government for its modest financial leadership in this area.

It was interesting to note in Mr. Gelb's remarks that he reported a discussion between a prominent U.S. leader in the arts and the leader's foreign colleagues. The foreign arts experts expressed wonderment at America's ability to rely so extensively on the private sector for support of the arts. Mr. Gelb noted that this reliance on private initiative was spurred on in part by the U.S. Government's "throwing of seeds onto the ground" of the private sector and how the vitality of the arts in the United States grows out of this public-private partnership. Mr. Gelb indicated that this was his desired approach to USIA's efforts with regard to cooperative ventures with the private sector.

Nowhere in the international exchange field is this kind of cooperative approach more evident and more successful than with citizen and youth exchange programs. Last year, IEA estimated that the combined dollar value of exchanges conducted by our members exceeded $133 million. Much of that money relies on the seeds of core and initiative grants given to our members by USIA through the offices of Private Sector Programs, youth exchange, and student support services. To reap the invaluable harvest of international understanding and cooperation that we all in Congress, USIA, and the private sector seek when we support international exchanges, we must continue to have the modest support of USIA's grant activities in this area.

Finally, let me commend to your attention the written remarks submitted at hearing by Ms. Cassandra Pyle on behalf of the Liaison Group for International Educational Exchange. Ms. Pyle has written very eloquently about the values and impact of academic exchanges and noted some of the pressing concerns and dilemmas that we all face in the exchange community--academic and citizen alike. Two related remarks of Ms. Pyle I wish to associate myself with. First is her desire to see a renewed initiative to overcome erosion in exchange program funding since 1986. Our members have noted that level funding during the past two fiscal years has resulted in real cuts in program volume and that we risk damage to program quality because of the decreasing value of the dollar. I would urge that Private Sector Programs be added to the list of functions in need of this renewed commitment. Second is her observations about the substantial budget reductions that have been suffered by several smaller exchange functions funded out of USIA's salaries and expenses account. In particular, IEA's members are affected by the instability in funding for youth exchange activities and the programs of the student support services office. I believe the

Liaison Group's approach to solving this problem is an acceptable option, though IEA would certainly entertain alternative proposals that achieve funding protection for these activities.

On behalf of IEA and its members, let me conclude by saying that I look forward to our cooperation in achieving U.S. international exchange goals shared by your Committee, USIA, and the private sector community. IEA stands ready to assist Congress as it makes critical decisions regarding the appropriate balance and level of funding for these important programs in reauthorization legislation.

The International Exchange Association

The International Exchange Association is a nonprofit, membership organization dedicated to the support of international citizen and youth exchange between the United States and the countries of the world. Its members--all U.S.-based, nonprofit organizations--are engaged in, or actively support, the exchange of citizens, youth, trainees, and professionals for educational, cultural, professional, and humanitarian purposes.

IEA serves as an umbrella organization that brings together the many facets of this dynamic international exchange community. Through cooperative projects involving member organizations, IEA works to strengthen communication within the exchange community; to improve the quality of information about the exchange community in government and throughout the public; to provide training for staff and volunteers in leadership and program management issues; and to cultivate and promote innovative exchange program ideas. IEA does not administer any exchange programs, but does serve as a reference point for exchange programming and related activities offered through member organizations.

IEA's specific activities include presentation of workshops and seminars on aspects of international exchange for its members and the public; an annual conference held in early Autumn for the citizen and youth exchange community; publications and materials in support of the international exchange community; and the International Leadership Development Institute, sponsored jointly with Colorado College. In addition, IEA acts as a facilitator for information and resources between its members and the government, other exchange-related organizations, and the public. The activities are coordinated through IEA's office in Alexandria, Va.

Inquiries from the public, government, and organizations about international citizen and youth exchange are welcome.

Full Members

AFS Intercultural Programs
New York, N.Y.

AIESEC-United States
New York, N.Y.

American Center for International Leadership (ACIL)
Columbus, Ind.

American Council of Young Political Leaders (ACYPL)
Washington, D.C.

The American Forum
New York, N.Y.

American Red Cross
Washington, D.C.

American Scandinavian Foundation (ASF)
New York, N.Y.

American Secondary Schools for International Students and Teachers (ASSIST)
Peterborough, N.H.

American Youth Work Center
Washington, D.C.

ASPECT Foundation
San Francisco, Calif.

Association for International Practical Training (AIPT)
Columbia, Md.

AYUSA International
San Francisco, Calif.

CDS International, Inc.
New York, N.Y.

Children's International Summer Village (CISV)
Troy, Ohio

Council of International Programs (CIP)
Cleveland, Ohio

Citizen Exchange Council (CEC)
New York, N.Y.

Educational Foundation for Foreign Study (EFFS)
Cambridge, Mass.

The Experiment in International Living (EIL)
Brattleboro, Vt.

Foreign Policy Association (FPA)
New York, N.Y.

The Friendship Force
Atlanta, Ga.

Future Farmers of America (FFA)
Alexandria, Va.

Girl Scouts of the USA
New York, N.Y.

InterExchange, Inc.
New York, N.Y.

International Christian Youth Exchange (ICYE)
New York, N.Y.

Japan-America Student Conference (JASC)
Washington, D.C.

NACEL Cultural Exchange
Duluth, Minn.

National Association of Secondary School Principals (NASSP)
Reston, Va.

National Council for International Visitors (NCIV)
Washington, D.C.

National 4-H Council
Chevy Chase, Md.

Ohio State University Agricultural Intern Program
Columbus, Ohio

Open Door Student Exchange
Hempstead, N.Y.

Partners of the Americas
Washington, D.C.

People to People International
Kansas City, Mo.

Program for International Educational Exchange (PIEE)
Bakersfield, Calif.

Sister Cities International (SCI)
Alexandria, Va.

Spanish Heritage-Herencia Espanola (SHE)
Forest Hills, N.Y.

World Exchange
Putnam Valley, N.Y.

World Experience (WE)
Hacienda Heights, Calif.

YMCA International Program
Services
New York, N.Y.

Youth For Understanding (YFU)
Washington, D.C.

Associate Members

Foundation for International Cooperation (FIC)
Rockford, Ill.

The GAP Activity Project, Inc.
New York, N.Y.

Iowa Peace Institute
Grinnell, Iowa

The Lisle Fellowship
Temperance, Mich.

Mobility International USA (MIUSA)
Eugene, Ore.

World College West
Petaluma, Calif.

Youth Network Council of Chicago, Inc. (YNC)
Chicago, Ill.

4.18.89

Senator **Sanford**. Thank you.

Senator Pressler.

Senator **Pressler**. Thank you very much. I think that in this whole debate regarding Turkey, Greece, and Cyprus, we have to look forward. There have been many arguments in the past. Indeed, I want our country to be friends with all three—Turkey, Greece, and Cyprus.

I have written an article in the Christian Science Monitor to that effect. And I dream of a day when all three countries will get along with each other. But I hope we can get to a point where the conflict is resolved.

Let me also say that in 1975, as a young congressman, I arrived at my position on this issue independently—some people think that because you have a Greek constituency, or something such, that you do this or that. But I have been very interested in this part of the world—interested in human rights for a long time.

And I see a world in which troops are now leaving Afghanistan. I am glad the Russian troops are leaving Afghanistan. I see a world where I served in the Army in Vietnam, but we found stationing troops abroad is something that, in this particular era, is not very acceptable in some of these countries.

I see the Cuban troops returning from Africa. And I would like to see a situation worked out where the Turkish troops would leave Cyprus.

However, I know there are many other arguments. But I offer my legislation in that good faith—to try to find a way to break the deadlock, a way to move things off of dead center, a way to show how strongly some of us feel who look at this situation from afar.

I would like to begin by asking anyone if my legislation does not pass, do we just stay deadlocked in the present situation?

I might start with Mr. Manatos.

Mr. **Manatos**. Well, Senator Pressler, I am afraid that we will, unless the Congress, unless the United States exerts some pressure this year, I am afraid we will stay in this situation for a very long time.

And if I might correct a point that was made earlier—it is factual correction. Mr. Hart indicated that Greece had $1 billion of unspent aid. I think you are mixing up Greece on the $1 billion—it is Egypt that has the $1 billion. I think it is $2.2 billion that is unspent aid. Greece is substantially lower.

To get back to your point on Cyprus. This is a rare opportunity for the Congress. If we push this year, these problems with Greece, these problems with Turkey, and these problems with Cyprus can be behind us. And we will have to stop appearing before you year after year, and the Congress will have a lot of other things to deal with.

Mr. **Hart**. May I make a comment?

Senator **Pressler**. Yes.

Mr. **Hart**. I checked that figure with the State Department. It is $1 billion.

Mr. **Youssouf**. Senator, in response to your question, if you withdraw the legislation as proposed, do we stay deadlocked?

I think it is important to understand the root of my opposition to this particular legislation by looking at what the U.N. process has generated so far.

Now, the U.N. document, and I am going to make reference for the record, to a document which was issued as paper No. 13, April 6, 1989, which is entitled "A General Overview of the First and Second Phases of the Current Talks in Cyprus."

In this particular document, the framework of a federal solution was outlined, and that federal solution talks about certain essential characteristics. The aim of the talks is the creation of a bicommunal, bizonal federation.

Now, the creation of a bizonal, bicommunal federation would be impossible, if your legislation were adopted, because you insist in paragraphs 5 and 6, or points 5 and 6, rather, of the legislation—the derecognition of the Turkish Republic of Northern Cyprus, and the recantation of the Turkish-Cypriot Declaration of Nationhood.

You see, essentially, Senator, what this paper says is that to have peace on Cyprus you need political equality. Political equality through bizonal, bicommunal federation has, as a precondition, the existence of two political entities. That is, the Turkish state and the Greek state.

When that situation obtains, the framework that has been submitted and, in fact, has several points of agreement between the two sides, then, begins to be instituted and becomes workable.

That is one of my major objections. Another major objection is, of course, the definition of the term "significant progress toward the establishment of a constitional democracy based on the principles of majority rule, the rule of law and the protection of minority rights."

Now, as an American of Turkish descent, and as an attorney, I understand completely, Senator, where you are coming from when you advocate those very sacred and important principles in this legislation. But, unfortunately, the application of those principles has been warped in the Cypriot context, because the application of the "majority-rule principle," for example, on Cyprus, means a perpetual built-in minority status for the Turkish-Cypriot population, which, by all estimates, is substantially smaller by about 3-to-1, or 4-to-1 to the Greek Cypriot population.

The problem in Cyprus has always been that there has never been a Cypriot polity as we understand it. There have always been two polities on Cyprus—the Greek-Cypriot and the Turkish-Cypriot.

Now, that is mentioned repeatedly by famous scholars of both Greek and Turkish origin. Dr. Volcan summed it up very eloquently in a book that he recently wrote, wherein he stated that Cyprus is a land, after all, that has been swept by the tides of conquest, and into which those conquering peoples have poured their blood. And their blood are the people of Cyprus today.

But those peoples are always, and have always viewed themselves as transplants from the mainland, so to speak. The Turkish-Cypriots, when asked, "Are you a Cypriot?" And they will say they are Turkish-Cypriots. They are Moslem. They speak Turkish. They have their culture and their traditions.

And Greek-Cypriots are proud of their Greek ethnic heritage, as Dr. Lomis is—has said today, as certainly entitled to. Proud of their history, proud of their connection with Greece.

So, what you have is an island nation that came into existence as the creation of a colonial empire on its last legs in 1960, with a series of very complex problems, that have never been effectively addressed in this body, that the parties are attempting to work out today.

And finally, Senator, the important thing to keep in mind when we analyze the legislation and its impact, is that, to the Turkish-Cypriot community—the people that I am representing today—the American Turkish-Cypriots, this legislation presents an, unfortunately, one-sided and biased view of Cypriot history.

A view that says, we, in the United States, because of the tremendous number of Greek citizens that have relatives in this country, and the proud heritage of Greek-American contributions to our culture, our politics, our business—have the power in the Congress to get this kind of legislation written.

Because, inevitably, when you read this legislation, you see nothing positive, or beneficial, as regards the Turkish-Cypriots. It appears that the Turkish-Cypriots are nothing more than puppets of an internationally expansionist-oriented Turkey, which is the furthest from the truth that I can imagine.

Senator **Pressler**. Would either of you like to respond to that?

Dr. **Lomis**. Please. Senator, Turgut Özal, the Prime Minister of Turkey, just very recently, in 1987, April 17, if I am not mistaken on the month, said when he was in Cyprus that, "I see northern Cyprus as an extension of Turkey." Now, that is the Prime Minister of Turkey saying this, not the Turkish-Cypriots.

When we talk about democratic principles, we talk about equality of everyone under the rule of law. Majority rule, minority rights guaranteed.

President Vassiliou has gone further than even what the 1960 constitution gave, or what some of the United Nations people have advocated, that the Vice President of the Republic be a Turkish-Cypriot.

President Vassiliou has advocated that the presidency be open, and that if the vote is there for a Turkish-Cypriot, certainly, to have the opportunity to become president. That, in itself, is equality.

What I am advocating is that if your legislation is not considered, we go back to the status quo we have been for the last 15 years. Every time we have a good legislation coming up that puts some pressure on Turkey, we always hear from the administration of the State Department, "Do not do anything, because they are discussing issues. Do not do anything. The Turks have promised they are going to move. Do not do anything, they are having elections in Turkey, and so on down the line."

That game is old. It is time that we hang something on top of their heads—say, either you are going to sit down and do it, act within the rule of law, within the international community—do not be an outlaw, or you are going to pay the consequences.

I am hard, but 15 years is a long time. And 5 Americans and 1,614 Cypriots, either dead or alive—at least their relatives have the right to know where they are.

Thank you.

Senator **Pressler**. Thank you, Mr. Chairman. I may have some additional questions for the record, but I thank you very much.

Senator **Sanford**. Well, I thank you very much. Thank you for coming, and thank you for a very interesting exchange, and for all of your work in putting together your testimony. It will be very valuable to us. Thank you.

We will leave the record open for additional comments and additional questions. Is there anything else?

Thank you. The committee stands adjourned.

[Whereupon, at 4:35 p.m. the committee adjourned, to reconvene subject to the call of the Chair.]

APPENDIX

RESPONSES OF ALAN WOODS TO QUESTIONS ASKED BY SENATOR PELL

Mr. Pell: The House of Representatives, A.I.D. and any number of private organizations have issued reports in recent months calling for reform of foreign aid. The so-called Woods Report concludes that foreign aid has largely failed to achieve its objectives. The House task force report, the so-called Hamilton Report, has a different assessment of the program, concluding that it has had "a positive record of accomplishments, management and expertise in development".

Does the Administration intend to submit legislation containing its "reform" package?

Answer: First, let me clarify that the A.I.D. report does not evaluate the effectiveness of foreign assistance. Rather, it assesses what has happened to developing country economies over the past 20-30 years. Some countries have made significant economic progress, but many have not. What A.I.D.'s report pointed out is that the economic policies of these countries have had a greater impact on their economic growth than did, for example, levels of official development assistance.

At the same time, foreign assistance programs and scientific advances have had a significant impact on some other measures of development, e.g., longer life expectancy, lowered infant mortality rates and rising primary school enrollment.

The Administration's proposed authorization legislation for FY 1990, which has been submitted to this Committee, represents our annual authorization package. Separately, we are deeply engaged in discussing the authorization legislation being considered by the House Foreign Affairs Committee, which attempts to rewrite the current Foreign Assistance Act. We look forward to working with this Committee as it prepares its foreign assistance legislation for FY 1990.

Mr. Pell: You have had an opportunity to study the House "reform" bill. Does the Administration support that approach? What suggestions might you have to modify the House bill?

Answer: Both the A.I.D. report and the Hamilton Task Force Report recognize that since the Foreign Assistance Act of 1961, successive Administrations, as well as Congress, have developed a multitude of often conflicting goals and objectives for foreign assistance. This has lead to piecemeal, unfocused efforts frequently unsuitable for today's global problems. Both the Administration and the Congress recognize that the Foreign Assistance Act needs to be revamped and rewritten. We support the efforts of the House Foreign Affairs Committee that would lead toward this end. Secretary of State Baker provided the Administration's comments on the new authorization legislation being considered by the HFAC a few weeks ago. Unfortunately, early signals from mark-up sessions on the Committee Print suggest a good deal of movement away from the principles set forth in the Task Force Report.

The Administration continues to attach high priority on focusing our foreign aid program on three or four primary objectives; providing greater flexibility in how foreign aid is administered, including the deletion of earmarks and functional accounts; shifting the focus of Congressional oversight from the initial justification of programs to performance-based accountability; and, creating more effective mechanisms to deal with coordination -- among U.S. agencies, within the global donor community, and with the developing countries themselves.

COORDINATION WITHIN THE U.S. GOVERNMENT OF A.I.D., TRADE, AND INVESTMENT POLICY TOWARD DEVELOPING COUNTRIES

Mr. Pell: The U.S. Government carries on its economic, financial and trade relations with developing countries through A.I.D., OPIC, the Export-Import Bank, and the Departments of State and Treasury. Toward the end of the Carter Administration, an International Development Cooperation Agency (IDCA) was created to oversee some, though not all, U.S. economic relations with developing countries. Critics have argued that the IDCA has existed in name only since 1981, and appears to have played no coordinative role at all.

As IDCA's Acting Director, do you see an active role for IDCA in the Administration? What steps could be taken to better coordinate the economic policies of U.S. Government agencies dealing with developing countries? Should something like a truly comprehensive International Development Cooperation Agency be created to deal with all aspects of U. S. economic relations with developing countries?

Answer: As initially envisioned IDCA was to be a separate organization from A.I.D., OPIC and the other entities for which it was to have oversight responsibility. In practice, that approach presented some practical problems, e.g. overlapping responsibilities and functions. Since the beginning of the Reagan

Administration IDCA's functions have been carried out on an acting basis by the A.I.D. Administrator.

In my role as acting IDCA Director I am both formally and informally consulted and participate in the formulation and execution of policies dealing with U.S. economic relations with developing countries. For example, IDCA and/or its constituent agencies participate in the formulation of U.S. trade policy through the Trade Policy Review Group. On matters involving national security, I am included in the deliberations of the National Security Council.

While I would not say that coordination is always adequate, the Administration is addressing the coordination issue internally and does not believe that legislative steps are needed.

PRIVATE ENTERPRISE INITIATIVE

Mr. Pell: Throughout the Reagan Administration, A.I.D. has promoted the Private Enterprise Initiative and development of the private sector in developing countries as one of its "four pillars."

Will the Bush Administration continue the Private Enterprise Initiative as one of its pillars of foreign aid?

Answer: The Private Enterprise Initiative continues to be an important Agency-wide special concern. The projects and programs supported by the Initiative have expanded Less Developed Country (LDC) free market systems and provided an increased opportunity for private enterprises to flourish. The open market objectives of the Initiative are, increasingly, becoming a LDC priority too. LDCs are recognizing that healthy private enterprises can enable their economies the opportunities for individuals to make economic choices.

A.I.D. provides two primary types of assistance in support of LDC private enterprise development. First, A.I.D. pursues policy/administrative reform initiatives at both the sectoral and macro levels in order to promote a broad-based program in support of many private sector beneficiaries -- in both the formal and informal sectors. A.I.D. seeks to eliminate bias in trade policies, encourage proper valuation of currency, and reduce or eliminate administrative and regulatory bottlenecks.

Second, A.I.D. seeks to help these enterprises through various forms of project assistance, including provision of services such as training or technical assistance, provision of resources such as credit, and capacity-building among institutions that provide these services or resources. Such forms of assistance account for most of A.I.D.'s assistance to micro, small, and medium-sized enterprises.

Several dozen privatizations have occurred with A.I.D.'s support, including several successful ones in Jamaica and Costa Rica. The Agency views privatization as an important vehicle to facilitate the adoption of free markets, i.e., a way to encourage private enterprises to compete with each other to produce increased employment, higher incomes, and improved standards of living.

In FY 1990, A.I.D. proposes to set aside $20 milli for a new program to implement the private provision of social services. Sustaining the delivery of social services is key to achieving broad-based growth. This new program combines A.I.D.'s traditional leadership in the delivery of social services to poor families with our more recent experience with private indigenous markets.

Mr. Pell: How do you respond to the criticisms that this approach is a "trickle down approach" and does little, if anything, to assist the poor?

Answer: The projects and programs of the Private Enterprise Initiative are just the opposite of "trickle-down." While the Initiative does support creation of healthy private sectors and private enterprises generally, it emphasizes start-from-the-bottom projects and programs that support the efforts of small entrepreneurs. The development impact of Initiative activities on micro-, small-, and medium-sized enterprises tends to be extensive, rapidly achieved, and directly related to the personal economic concerns of individuals.

POPULATION PROGRAMS

Mr. Pell: Certain components of the foreign assistance program are more controversial than others. The population program, by almost anyone's definition, falls within the controversial category. Supporters of the population program have expressed concern that elimination of functional accounts could adversely impact on population programs in that the bureaucracy will shy away from what are perceived to be controversial programs. Do you believe these concerns are valid? If not, why not?

Answer: I agree that population assistance can be controversial. At the same time, I believe A.I.D.'s approach to population assistance is sound. Our population assistance is neither conditional nor targeted at countries that do not request assistance. A.I.D.'s program emphasizes strong support for voluntary family planning, and at the same time we firmly oppose coercion and abortion as a method of family planning. Our population policy is clear and our program continues to be the largest among donors. The new Administration is fully supportive of A.I.D.'s approach to voluntary family planning and intends to continue effective programs in this field.

Thus, I do not believe that the elimination of functional accounts will adversely affect A.I.D.'s population program. Based on Bureau demands, A.I.D. has consistently requested over 10 percent of our DA for population in recent years. Furthermore, A.I.D. supports population activities in over 90 countries and the absence of a functional account should not affect the continued requests for population assistance by recipient countries.

EXPERIENCES OF THE DEVELOPMENT FUND FOR AFRICA

Senator Pell:	The Hamilton Task Force has cited as its model the two-year-old Development Fund for Africa, which gives A.I.D. substantial flexibility in programming $500 million to the region. The Committee has found it difficult to track Africa Fund allocations by sector, and some have suggested that A.I.D. itself has had trouble figuring out how some of the money was spent. What mechanisms are in place to assure accountability of money obligated under the fund? Please provide for the Committee a breakdown of this fiscal year's allocations by sector under the Fund.
Answer:	A.I.D. continues to stress accountability in all its programs. The blending of resources through more collaborative programming of funds with host country governments, other donors, and private voluntary organizations has strengthened individual and overall accountability through increased management oversight. In addition, Missions are aware of the need to make certain that funds, both U.S. dollars and local currency, are used as intended. Missions have significantly increased their use of public accounting firms to review the internal control systems and the performance of the implementing agencies.

With the inception of the Development Fund for Africa, we created a matrix which permits us to attribute each element of the DFA program among major sector and sub-sector categories. Some of these categories, such as health and population, parallel the former functional accounts. Others are more specific. Agriculture, for instance, is sub-categorized into several separate areas.

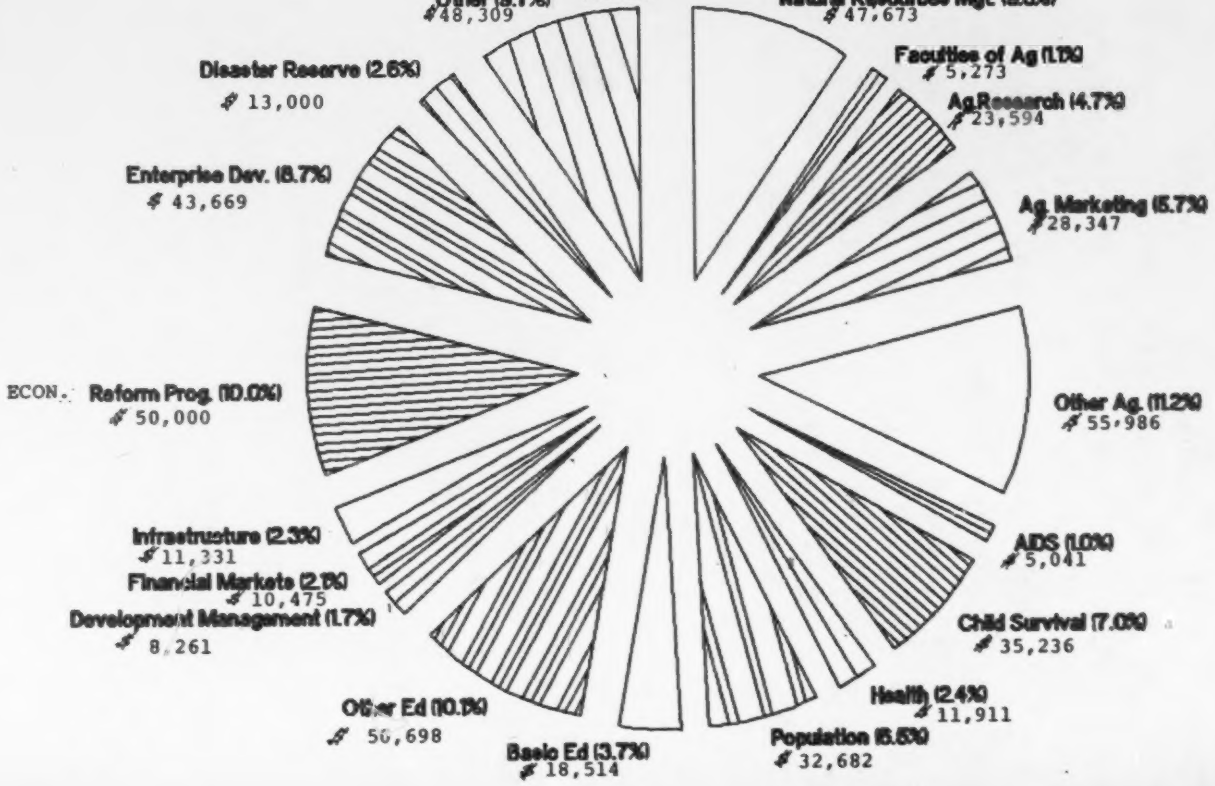
The matrix has been instrumental in insuring that we are indeed implementing our stated priorities and that we are successfully responding to Congressional funding targets. We expect that our method of tracking obligations will continue to evolve in conjunction with our analytical and information requirements and in the interest of uniformity with the Agency's other regional programs. During the course of our FY 1991 budget cycle, we will be considering variations in this system.

I am submitting for the record a pie chart which reflects DFA sector allocations for FY 1989, and I would like to call your attention to the FY 90 DFA sector allocation pie chart on page 93 of the Main Volume of A.I.D.'s FY 1990 Congressional Presentation.

Development Fund for Africa

Sectoral Allocations - FY 1989

($000)



ESF CASH TRANSFER ASSISTANCE

Mr. Pell: The Economic Support Fund (ESF) program has been the fastest growing component of the foreign aid budget. For fiscal year 1989, A.I.D. provided $3.3 billion in ESF assistance -- 50 percent of all bilateral foreign economic assistance. Increasingly, ESF is provided as cash transfers.

In view of Congressional concerns, A.I.D. has said that it will not permit ESF recipients to use ESF to repay Foreign Military Sales debt except where Congress specifies this to be a proper use. What problems, if any, has this policy posed for ESF cash transfer recipients?

Answer: No problems have been posed by A.I.D.'s policy guidance regarding ESF cash transfers, which precludes FMS debt service as a use of ESF separate account dollars, except where "such use of cash transfers is recognized by statute as amplified by legislative history as valid."

A.I.D. does permit the use of ESF funds to pay military debts in the case of Israel. Our policy with respect to Israel responds to concerns by Members of Congress, as reflected in the legislative history of foreign assistance, and is consistent with our understandings with Israel regarding such use.

ECONOMIC SUPPORT FUND

Mr. Pell: Has A.I.D. encountered any difficulties in implementing the legislative provision requiring separate accounting for cash transfers? What procedures is A.I.D. using to ensure that cash transfer funds are disbursed for authorized programs.

Answer: A.I.D. has found in implementing the separate account requirement that monitoring these separate accounts requires a considerable amount of staff resources. However, we have successfully implemented the requirement that all ESF cash transfers be maintained in separate accounts. As part of the Internal Control Assessments performed annually in accordance with the Federal Manager's Financial Integrity Act, missions must verify that all dollars disbursed under cash transfer assistance are maintained in separate accounts.

Missions must also verify that their cash transfer assistance agreements describe the general uses to which cash transfer dollars will be put, provide for periodic reporting by the host country on disbursements of the dollars, and describe remedies in cases of noncompliance with the agreement on uses. These agreements, and our initial reviews, effect overall compliance with the Agency policy guidance on ESF cash transfers issued in October, 1987, and should ensure that cash transfer funds are used for authorized purposes.

ESF CASH TRANSFERS

Mr. Pell: What does A.I.D. consider appropriate uses for cash transfer assistance? How do such uses contribute to the economic development of ESF recipient countries?

Answer: Cash transfer assistance has become an invaluable tool in the encouragement of economic policy reform programs. Structural adjustment is a long and oftentimes painful process, and infusions of foreign exchange are required to mitigate the destabilizing effects of economic restructuring. Cash transfer assistance cushions the shock of economic adjustments and provides resources necessary to restart sustainable economic growth. Since disbursements of cash transfers are often linked to the implementation of specific reform measures, cash transfer support of host country adjustment efforts enhances prospects for adherence to the reform program.

Cash transfer assistance also provides badly needed balance of payments support for those countries which are overburdened by debt obligations. Again, these resource transfers are often directly linked to steps in the economic reform process.

Examples of cash transfer assistance used for economic reform and development purposes include:

-- Guatemala, where over the past three years cash program assistance has supported the new democratic government's program for tackling severe economic problems and, through local currency generations, the funding of programs for the native Guatemalan rural poor;

-- Senegal, where a structural adjustment program using cash program assistance and associated local currencies has supported extensive economic policy reforms liberalizing agricultural markets, reducing fiscal deficits and rationalizing the tax system;

-- Costa Rica, where cash transfers supported an economic and financial reform program and helped alleviate a serious financial crisis brought on by an unmanageable external debt burden and excessive public sector spending.

AGRICULTURE, RURAL DEVELOPMENT AND NUTRITION

Mr. Pell: The original budget request for fiscal year 1990 requested increases, albeit modest, or level funding for the functional development accounts, with the exception of the agriculture function.

Why is that functional account singled out for a 3.2 percent reduction?

Answer: While the FY 1990 request of $477.7 million for the ARDN account is lower that the FY 1989 appropriated level, it is an increase of $16.6 million above the FY 1989 request level of $461.1 million. This represents one of the largest increases for any of the functional accounts.

The FY 1990 request will continue A.I.D.'s focus on increasing the incomes of the rural poor, employment generation, increased food consumption and protection of the natural resource base and environment, including high priority biological diversity activities.

In light of overall budget constraints, we believe that the FY 1990 request for the ARDN account is the appropriate level.

DEVELOPMENT IMPACT OF ESF SUPPORT

Mr. Pell: ESF's legislative authority directs that ESF is to be used in a manner consistent with development "to the maximum extent feasible." In reality, the bulk of the funds go to middle-income and high-income Third World countries and not to low-income, less developed countries.

How much ESF is used for development projects?

Answer: As our request for FY 1990 indicates, overall we expect to roughly maintain the same proportional split for our ESF program as has been the case for recent years between balance of payments assistance (made up of cash program aid--58% to 60%, and commodity import programs--7% to 9%) and project assistance (which makes up 30% to 33% of the ESF program).

If we set aside the security-based cash transfers for developed countries (Israel, Turkey, Portugal), in which A.I.D. is minimally involved, from the overall total you will find that more than 50 percent of our ESF is projectized. Significant ESF project portfolios exist, or are planned for Egypt, Pakistan, Philippines, Afghanistan humanitarian assistance, Morocco, Oman, Jordan, Tunisia, El Salvador, Belize, Peru, South Africa and for regional programs in Asia, the Near East, South and Central America, and the Caribbean.

ESF projects are designed by A.I.D. staff to address development problems in the recipient country. Such projects are managed by A.I.D. missions in a manner which is consistent with A.I.D.'s overall development portfolio.

ESF AS A TOOL TO INFLUENCE POLICY REFORM

Mr. Pell: In countries that are major allies, where the aid provided is large enough to be a major source of income, the threat of withholding funds does not have the leverage it might in other countries because the importance of these allies to U.S. political or strategic interests gives them a persuasive bargaining chip of their own, making them more immune to U.S. threats to withhold aid or condition aid on policy changes. In the smaller, strategically less important countries, the U.S. often attempts to use ESF funds to influence policy reform. However, the relatively small amounts of money given to the smaller countries may not be sufficiently important to the country to allow the U.S. much leverage in pushing for policy reform.

Do you have concerns that either large or small amounts of ESF money can be used effectively to promote policy reform?

Answer: As a general rule, countries introduce economic reforms because they themselves come to recognize that those reforms are essential to the long-run interests of their people. The approach utilized by A.I.D. and other donors to persuade the leaders of developing countries to launch reforms is policy dialogue -- a combination of education, research and consensus building. In carrying out policy dialogue A.I.D. enjoys a great advantage by having resident technical and administrative staffs in day-to-day contact with the host governments' technicians and policy-makers. An essential component of the policy dialogue process is to define the costs and benefits of the reforms. The problem is that the costs of reforms (typically reduced or higher cost imports or cuts in government spending) tend to be immediate while the benefits take longer to be realized. Because ESF can be flexible and fast disbursing, it is typically the ideal mechanism with which to absorb the short run "costs" of reform. Thus, relatively modest amounts of ESF can influence the outcome of the policy dialogue and reform process, and I caution you against making comparisons between program size and the size or strategic importance of ESF recipient countries.

A.I.D.'s role should not be exaggerated. The IMF and the World Bank concentrate their attention on monetary, fiscal, and exchange rate issues and on public investment and selected sectoral policy issues. Because both institutions have large staffs of economists and usually considerably larger and more flexible modes for delivery of resources, they dominate much of the policy reform activity in many countries. Where A.I.D. makes an independent judgment that the policy directions of these other institutions are appropriate, A.I.D. supports them. In addition, in many countries, USAIDs maintain an independent leadership role in selected policy areas at the sector level, e.g., agricultural pricing or private sector incentives.

RELATIVE DEVELOPMENT AID SHARE

Mr. Pell: The European countries together are investing far more in development assistance than the United States. Japan is in the process of surpassing the U.S. as the largest single-nation donor. Arab members of the Organization of Petroleum Exporting Countries (OPEC) also have become important development donors.

What are the implication of our declining world position as a provider of development assistance?

Answer: The greater diversity of aid sources requires that donors cooperate with each other on one hand to avoid conflicting programs and duplication of efforts, and, on the other hand, to seek out opportunities to combine resources in order to most effectively support LDC economic growth objectives. The increasing share of total aid provided by other donors reinforces the need for active coordination of aid programs.

The multiplicity of donors also requires that we give increased attention to consensus building (among donors and with developing countries) on priority development areas, policy reforms, and related donor support. A.I.D. actively supports and participates in country specific coordination mechanisms (consultative groups and roundtables), numerous international donor groups concerned with sectoral problems, as well as the Development Assistance Committee of the OECD which addresses a wide range of development issues and donor aid policies. In both multilateral fora and in bilateral discussions I continue to stress with other donors the importance of coordination to achieving greater aid effectiveness.

INTERNATIONAL COMMISSION FOR CENTRAL AMERICAN RECOVERY AND DEVELOPMENT

Mr. Pell:	In March of this year, the International Commission for Central America Recovery and Development issued its report. Are you familiar with the report?
Answer:	We are very familiar with the Commission's report. From the beginning we have consulted with Commission members and staff and have made available to them information on our programs in Central America.

Mr. Pell: Do you support the Commission's three recommendations for an immediate action plan, focusing on refugees and displaced persons; making special provisions for children under the age of five, pregnant and nursing women, and the elderly; and generating productive employment?

Answer: We are in full agreement that there are priority needs in education, health, nutrition, sanitation, etc., in the region, some of which are highlighted in the Commission's report. These are traditional and current areas of A.I.D. involvement in country programs in Central America, to the degree applicable in each country. These programs are designed to address the root causes of flight or dislocation of populations and target the most disadvantaged populations. We would not, however, agree that refugees or displaced persons should be singled out for special treatment if that would result in the creation of disparities in services creating resentment among the local residents. The refugees and displaced are, however, benefitting from A.I.D. programs, with the local residents, in that they do have access to health, education and rural development programs. We have specific programs in El Salvador and Honduras to reintegrate the displaced.

The target populations recommended by the Commission, with the exception of refugees, for whom the State Department's Office of Refugee Programs has legislative mandate, are also consistent with those "at risk" populations our programs seek to address, e.g., women, children and the elderly. I believe you would find that A.I.D.'s development assistance portfolio in Central America is consistent with the recommended areas of immediate action. However, these programs must go hand-in-hand with a policy framework which supports sustained broad-based growth lest "immediate needs" become chronic. A.I.D. missions in Central America are encouraging the governments to implement sound economic policies and strengthening the private sector in order to stimulate broad-based economic growth. This growth will generate employment and increase income; in short, it will provide a larger pie to be divided among the population.

Mr. Pell: The Commission also makes a series of recommendations for long-term development of the Central American countries, one of which is to "encourage the United States to maintain current assistance levels and to increase cooperation with multilateral aid efforts." Could you comment on that recommendation?

Answer: We are already addressing the Commission's recommendation that the U.S. cooperate with multilateral aid efforts. Last year with strong U.S. support World Bank-led Consultative Groups were formed for Costa Rica, Guatemala and Honduras. We participated actively in all three of these multi-donor meetings and continue to encourage the formation of a Consultative Group for El Salvador as well. Indirectly, we also lend support to the "Special Plan for Central America", being implemented by the U.N. Development Programme (UNDP). Although our resources will continue to flow primarily through bilateral channels, we will coordinate our efforts with those of the UNDP and other donors under the Special Plan.

GAO REPORT ON IMPACT OF U.S. ASSISTANCE TO CENTRAL AMERICA

Mr. Pell: GAO is in the process of finalizing a report on the impact of U.S. Assistance to Central America during the 1980's.

Economic Reforms. I understand that the report gives mixed reviews to U.S. economic stabilization and adjustment efforts. Specifically, it charges that Honduras viewed U.S. aid as a substitute for reforms. What efforts have been made to influence policy reform in Honduras?

Answer: The GAO Draft Report recognizes the fundamental soundness of the A.I.D. development strategy in Central America, while noting differences in performance and results in stabilization and adjustment programs among the countries. In the case of Honduras, the Draft Report does indicate inadequate progress on essential reforms, but also states that in the last couple of years Honduras "...has been more amenable to reforms suggested by the United States." I agree with the general tenor of the Draft Report on the need to encourage a faster pace of reform in Honduras in the future in order to put in place a policy framework supportive of sustained, accelerated growth. A.I.D. efforts to influence policy reform to date have contributed to Honduras lowering its fiscal deficit from over twelve percent in 1985 to just over five percent, moving half of its export transactions into a *de facto* parallel exchange rate market (to reduce the impact of an over-valued exchange rate), and making notable progress in privatizing inefficient parastatals.

Mr. Pell: If those efforts have been without success, what is the justification for requesting increased ESF for Honduras in the FY 1990 budget?

Answer: While we need to encourage a faster pace of reform in Honduras, there has been good progress in some areas. Our request level for Honduras for FY 1990 of $87 million is the same as the Administration request for FY 1989 which was reduced by the Congress to an earmarked $85 million.

Mr. Pell: Is any thought being given to making greater use of conditionality to encourage Central American governments to initiate institutional and policy reforms?

Answer: ESF assistance with attendant policy dialogue and conditionality have contributed to noteworthy progress, particularly in Costa Rica and Guatemala as discussed in the GAO Draft Report. As a result of steady improvements in economic policies and institutional changes, Costa Rica has laid the basis for rapid economic growth. Guatemala, too, has made substantial progress since 1986, the year a democratically-elected President came to power. A growth-supporting policy framework was established and is beginning to be reflected in GDP growth statistics. However, much remains to be done to strengthen democratic institutions and to broaden the base of participation, particularly in the highland Indian regions of Guatemala. In El Salvador, still beset by a devastating war, the economic policy framework is far from satisfactory, while progress in institutionalizing democracy and reducing some of the major inequities in that society have been remarkable.

A.I.D. Missions will continue to conduct policy dialogues with the Central American governments and include conditionality on assistance appropriate to each country's circumstances. Special effort will be directed to the policy dialogue in FY 1990 with new governments in El Salvador and Honduras.

Mr. Pell: Emphasis on Multilateral Assistance. The report also makes the suggestion that the U.S. support Central American initiatives and multilateral approaches when possible to lower the U.S. profile in sensitive areas.

Is a greater effort being made to support multilateral assistance? What can be done to move more swiftly in this direction?

Answer: A.I.D. is actively encouraging increased multilateral and other donor assistance in the region and is having considerable success. Consultative Groups led by the World Bank have been formed for Honduras, Costa Rica and Guatemala and are resulting in joint efforts directed toward improving development policies, improving the targeting of development resources and increasing financing from other donors. The IMF and World Bank are showing renewed interest in El Salvador. A.I.D. is encouraging this interest and hopeful that a Consultative Group for El Salvador will be possible in the near future. Results in Costa Rica and Honduras are already significant with IBRD and accompanying Japanese financing for Structural Adjustment Loans totalling $200 million and $100 million, respectively, planned by the Bank and the Japanese government.

TERMINATION OF U.S. ASSISTANCE BECAUSE OF OVERDUE LOANS

Mr. Pell: Section 620(q) of the Foreign Assistance Act contains a legislative restriction known as the Brooke Amendment which cuts off aid to any country more than six months in arrears on U. S. aid loans. Appropriation bills have expanded the period of time in arrearage before a cut off to one year.

Administration officials have expressed concern that as of July 1, Egypt may come under the Brooke sanction, forcing the cut-off of $815 million in economic support funds and $1.3 billion in military assistance. An article last week in the *New York Times* stated that unless Liberia, the largest per-capita recipient of U. S. aid in sub-Saharan Africa, paid the U. S. at least $7 million by May 10, the U. S. would be forced to terminate Liberia's economic and military aid.

What other countries appear to be on the brink of termination for loan arrearages?

Answer: Those countries currently in violation of 620(q) and Brooke as of April 30, 1989, are listed below. The list of potential violations are listed for debt due through June 30, 1989.

As noted below the Secretary has approved national interest waivers for seven countries with current debt problems.

Section 620(q): Actual Violations:

Argentina	07-29-86	
Benin	01-07-88	620(q) waived.
Bolivia	05-16-88	620(q) waived.
Brazil	07-02-85	
Dominican Republic	04-19-89	
El Salvador	04-19-89	
Guyana	09-05-82	
Iran	07-31-80	
Laos	12-24-75	
Liberia	03-11-88	620(q) waived.
Morocco	04-24-89	
Nigeria	01-22-89	620(q) waived.
Nicaragua	09-06-81	
Panama	12-13-87	
Peru	10-14-88	
Sudan	03-16-89	
Syria	12-22-84	
Tanzania	03-31-88	620(q) waived.
Vietnam	11-29-75	
Zaire	12-31-88	620(q) waived.
Zambia	04-05-88	620(q) waived.

Section 620(q): Potential Violations:

Costa Rica	06-09-89
Egypt	06-16-89
Honduras	05-15-89
Jordan	06-23-89
Lebanon	06-01-89(HIG)
Senegal	05-01-89(HIG)
Turkey	05-18-89

Brooke Amendment: Actual Violations:

Argentina	01-29-87	Due A.I.D.
Benin	07-07-88	Due A.I.D.
Bolivia	02-03-89	Due A.I.D.
Brazil	01-02-86	Due A.I.D.
Ethiopia	07-01-81	Due DoD
Guyana	03-05-83	Due A.I.D.
Iran	01-31-81	Due A.I.D.
Laos	06-24-76	Due A.I.D.
Liberia	09-11-88	Due A.I.D.
Liberia	10-01-88	Due DoD
Nicaragua	06-30-80	Due DoD & A.I.D.
Panama	05-26-88	Due DoD
Panama	06-13-88	Due A.I.D.
Peru	10-14-88	Due DoD
Sudan	01-05-89	Due DoD
Syria	06-22-85	Due A.I.D.
Tanzania	10-01-88	Due A.I.D.
Vietnam	05-29-76	Due A.I.D.
Zambia	12-31-88	Due A.I.D.

Brooke Amendment: Potential Violations:

Bolivia	05-24-89	Due DoD
Dom Republic	06-16-89	Due DoD
El Salvador	05-17-89	Due DoD
Gabon	05-17-89	Due DoD
Honduras	06-01-89	Due DoD
Jamaica	06-21-89	Due DoD
Jordan	05-29-89	Due DoD
Zaire	06-01-89	Due DoD

TERMINATION OF U.S. ASSISTANCE BECAUSE OF OVERDUE LOANS

Mr. Pell: Do you expect the Administration will utilize the "national interest" waiver contained in the Brooke Amendment for any countries unable to make up their arrearages?

Answer: The Brooke amendment, section 518 of the FY 1989 Foreign Assistance Appropriations Act, does not contain a national interest waiver. The "national interest" waiver to which you refer is contained in section 620(q) of the Foreign Assistance Act. This waiver has been approved for the seven countries listed earlier. This waiver is granted on a case-by-case basis and I expect to seek approval in selected countries where the suspension of new obligations would jeopardize U.S. national interests.

Mr. Pell: In light of the worldwide debt crisis, would you recommend any changes in the Brooke Amendment?

Answer: No. Virtually all donors have some form of sanctions to protect the integrity of their lending base. The U.S. is no different. To help reduce debt burdens and minimize the types of problems which Brooke sanctions present we have adopted a "grant only" policy for virtually all debt distressed developing countries with whom we deal. We prefer to address existing debt problems through other debt relief mechanisms such as the Paris Club. Also, we wish to consult with other donors to exchange ideas on a viable approach to the debt problems of heavily indebted countries. We do not feel that modifying or eliminating the Brooke amendment is a useful approach.

PHILIPPINES MULTILATERAL ASSISTANCE INITIATIVE (MAI)

Mr. Pell: The Administration is proposing a large increase in U.S. assistance to the Philippines. Under the proposal, the United States would provide $649 million to the Philippines, more than double the figure for FY 1989. Of this amount, $200 million would be used for the United States' contribution to the Multilateral Assistance Initiative (MAI), a multilateral aid program for the Philippines.

Could you please describe for the Committee the purpose of the MAI, the duration of the initiative, the countries involved, and the types of projects it will finance?

What is the anticipated total cost of U.S. participation in the MAI? Is it the Administration intent to request another $200 million for FY 1991?

What conditions, if any are attached to the MAI assistance provided by other countries, particularly Japan?

Answer: The survival of the recently restored democratic process in the Philippines depends in a large part on the ability of the Aquino Administration to bring about a fundamental transformation in the Philippine economy, resulting in substantial economic growth and expanded opportunities. Close to half the working population is unemployed or significantly underemployed, and over 60 percent of the rural population lives in poverty. Because of the dimensions of the problem and our strong national interest in the success of democracy, but recognizing that there are limited U.S. resources, we are structuring an international effort to assist the Philippine Government.

The MAI is an international effort organized by the U.S. Government to help the Government of the Philippines develop and undertake a comprehensive economic reform program aimed at restructuring the economy. Donor disbursements will be linked to progress in implementing that program. The USG financial commitment of $200 million will allow us to organize the MAI, encouraging increased assistance from other donors, as well as Government of the Philippines policy reforms. Without this USG commitment, the prospects of mobilizing international support for the MAI will be seriously impeded.

The planned U.S. contribution to the MAI over the five-year period is $1.0 billion. The initial $200 million request will enable the U.S. to leverage other donor resources in support of the MAI. Although conceived as a five-year program, subsequent funding requests to Congress will be made in accordance with the Philippines' progress on policy and administrative reforms. An initial USG commitment of $200 million will give us the opportunity to shape this special new initiative which has attracted the interest and support of major donors. Private sector resources are potentially far greater than public sector ones, but they are harder to predict.

Informal soundings with a range of countries indicate that the MAI can bring significant new donor resources to the Philippines. The following countries have expressed interest in participation: Japan, South Korea, Brunei, Singapore, Australia, Canada, the Federal Republic of Germany, France, and Italy. Definite levels of donor assistance will not be available until the initial Consultative Group pledging session now expected in June or July.

The MAI is being organized by the U.S., Japan, the IMF and the World Bank under the chairmanship of the World Bank. The Government of Japan has committed more than $1.1 billion in aid loans, grants and technical assistance to the Philippines in fiscal year 1988, an increase of 21 percent over 1987 commitments. We are confident that Japan's assistance program will again increase by a substantial amount in the first year of the MAI. Under the MAI, Japan has agreed to link its assistance to the Philippines to policy and administrative reforms, which we believe is a first for the Japanese aid program.

The government's economic reform program for the MAI is currently under development. Preliminary discussions indicate that the Government of the Philippines is formulating a comprehensive, medium-term program of economic reforms and development priorities to bring about a transformation of the economy, to move from economic recovery to sustained, broad-based economic growth. The program is designed to promote restructuring from an inefficient, highly-regulated and inward-looking economy to one which is competitive, dynamic and export-oriented. In addition, the efficiency of both the public and private sector will be improved. The government program will indicate the priorities, principal policies and requirements in areas such as trade, investment, finance, banking, privatization, administrative decentralization as well as the economic and social sectors.

Within the economic reform program program, donors will provide assistance (projects, commodities, balance of payment support, etc.) designed in consultation with the Government of the Philippines and in accordance with donor normal criteria and policies.

LEGISLATION FOR U.S. MEMBERSHIP AND PARTICIPATION IN INTERNATIONAL TROPICAL TIMBER ORGANIZATION (ITTO)

Mr. Pell: Does the Administration support legislation authorizing U.S. membership and participation in the International Tropical Timber Organization, a multilateral organization formed to implement recommendations stemming from the 1985 International Tropical Timber Agreement (ITTA)?

Answer: Yes, this legislation is necessary to put U.S. membership in this organization on a sound footing. The International Tropical Timber Agreement (ITTA) was established in 1983 following a series of meetings organized by the United Nations Conference on Trade and Development (UNCTAD) concerning tropical timber, and the Agreement entered into force on April 1, 1985. The U.S. actively participated in the UNCTAD organized meetings, and this nation was one of the charter "consumer country" members of the International Tropical Timber Organization (ITTO).

The main objective of the Agreement is to provide an effective framework for cooperation and consultation between tropical timber producing and consuming countries with regard to all relevant aspects of the tropical timber economy. One of its stated objectives is "to encourage the development of national policies aimed at sustainable utilization and conservation of tropical forests and their genetic resources, and at maintaining the ecological balance in the regions concerned." Conservationists and the U.S. Government hope to see ITTO bring together environmental and trade interests to work with governments in improving the long-term management of tropical forests.

As a member of the ITTO, the U.S. sends delegations to participate in meetings convened by the organization. However, the U.S. has been unable to pay its full dues because of budgetary constraints. The Administration has proposed full payment of FY 90 dues.

RESEARCH AND DEVELOPMENT PROJECTS FOR TROPICAL FORESTS

Mr. Pell: Does the Administration support research and development projects that foster conservation and sustainable use of tropical forests?

Answer: The Administration is a strong supporter of research and development projects that promote conservation and sustainable use of tropical forests. This is mandated in Section 118 of the Foreign Assistance Act. The emphasis of the Agency for International Development program is targeted to training and institution building activities (60 percent) that support research.

Currently, A.I.D. directly finances about 145 projects under way in 46 developing countries, with life-of-project funding totalling $586 million. Thirteen new projects were initiated in 1988 and 1989 with life-of-project funding of $101 million. Annual funding levels for A.I.D.'s tropical forestry assistance projects have tripled from $20 million in 1979 to over $65 million in 1989. It is anticipated that funding levels for FY 90 will remain at approximately $65 million.

LEVEL OF U.S. SUPPORT THROUGH INTERNATIONAL TROPICAL TIMBER AGREEMENT (ITTA)

Mr. Pell: What level of support should the U.S. be providing through the ITTA?

Answer: Budgetary constraints have precluded U.S. Government financial support for specific ITTO projects dealing with tropical forest conservation. However, we feel these are meritorious undertakings.

DEBT FOR NATURE

Mr. Pell: President Bush recently announced debt for nature swaps as a part of the economic aid program he is proposing for Poland.

What is A.I.D. doing to explore ways to link debt relief to the environment? Are there programmatic restrictions which would discourage such debt swaps?

Answer: I have recently launched a Debt for Development Initiative under which the dollars provided to support the activities of PVOs and NGOs can be used to purchase discounted debt of the host country. The debt is then swapped for local currency at the full face value of the debt. It is then used to support the local operations of the organization. The end result is that the PVO receives more local currency units per dollar of A.I.D. assistance received than it would be converting our currency directly. This is a new approach and initially we are limiting the initiative to the ongoing activities of established PVO/NGOs, including those focussing on environmental activities.

The Brady plan provides a supportive framework for pursuit of a variety of debt swaps schemes. Several countries considering such swaps have expressed concerns about the potential inflationary impact on their domestic economy. Such concerns may limit the volumes of debt for environment exchanges.

Mr. Pell: Are there any legislative amendments to enhance A.I.D.'s ability to achieve debt for nature swaps?

Answer: The provision of current legislation requiring that interest on disbursements be returned to the U.S. Treasury limits the scope of the Debt for Development Initiative. This requirement effectively precludes governments from endowing organizations by issuing interest bearing bonds in exchange for debt.

PRIVATE VOLUNTARY ORGANIZATIONS

MR. PELL: In fiscal year 1990, A.I.D. is requesting $392 million for PVO programs, channeled through the Development Assistance accounts and the Economic Support Fund account. In FY 1988, A.I.D. obligated $451 million in support of PVO programs.

Why is there a proposed decrease in the amount of PVO support from fiscal year 1988?

ANSWER: Based on the experience of prior years, we expect the amount currently projected for fiscal year 1990 to increase during fiscal year 1990 as funds for PVO activities are actually obligated. In fact, final obligations for fiscal year 1990 may well exceed those for fiscal year 1988, just as the final level for FY 1988 of $451 million exceeded the original request for FY 1988 of $290 million. This is because experience shows that PVOs end up implementing project components for which the mode of implementation was not initially identified at the time of the submission of the Congressional Presentation.

Mr. Pell: Current law mandates that no less than 13 and 1/2 percent, and up to 16 percent, of the Development Assistance and Economic Support Fund obligations be channeled through PVOs.

What percentage of these accounts does the $392 million request represent?

Answer: It represents 21.2 percent of functional development assistance. The $392 million figure includes ASHA, which the current legislation does not count for purposes of determining compliance with the 13 and 1/2 percent and 16 percent provisions. Therefore we calculate the percentage based on $385.9 million (i.e., omitting the $6.5 million projection for ASHA).

CENTER FOR PRIVATE AND VOLUNTARY COOPERATION

Senator Pell: I am advised that a proposal has been made to create a separate Center for Private and Voluntary Cooperation, the purpose of which would be to strengthen the partnership for development between the U.S. Government and PVOs.

Are you familiar with this proposal? What is your reaction to this suggestion?

Answer: The relationship between the Agency for International Development and private voluntary organizations (PVOs) and cooperatives has become stronger in the past decade. Coordination and continuous dialogue between A.I.D. and the PVOs is important for smooth operations. Thus, in our discussions with the House Foreign Affairs Committee, A.I.D. has suggested that it might be helpful to establish three permanent Advisory Boards, one each for international food and agriculture (to replace the BIFAD), private and voluntary organizations and cooperatives (similar to the long-functioning Advisory Committee on Voluntary Foreign Assistance), and the private sector. I believe that this tripartite structure is a more efficient and cost-effective mechanism than the proposal for creating centers and advisory boards for PVOs and for universities.

One of my biggest concerns is with the complexity of the structures proposed by the HFAC. A three-tiered body, composed of two Centers for PVOs and Universities, two Advisory Boards and an unlimited number of subunits, is unwieldy, unnecessary and expensive.

Also troubling is the fact that the same organizations that "administer" funds would also evaluate these programs and recommend budget levels, creating a built-in conflict of interest situation where accountability for the use of funds is largely left to those who develop program criteria and spend the funds against those criteria. In effect, the centers would likely become independent foci promoting their own special interests to the derogation of other development assistance programs.

Besides duplicating advisory functions already provided for elsewhere, the proposed board would require additional organizational structures and staff support, and thus impose added administrative costs on the operating expenses of the Agency.

RESPONSES OF ALAN WOODS TO QUESTIONS ASKED BY SENATOR LUGAR

PARTICIPANT TRAINEE TAX LIABILITY

Mr. Lugar:	I understand that the Tax Reform Act of 1986 is having an adverse affect on A.I.D.'s Participant Training Program. Can you provide the committee with a brief description of the the problems.
Answer:	The Tax Reform Act of 1986 changed the treatment of scholarship and fellowship grants for both U.S. and foreign recipients. The result is that students must pay taxes on the amounts received that are for other than tuition, books, and related educational expenses. A.I.D. grants normally pay for the following:

Tuition/Training Fees
Books (Excludable)
Equipment/supplies
Living Allowances
Health Insurance
Domestic Travel
Orientation (Taxable)
Professional Memberships
Mid-Winter Community Seminars
Activities designed for students to experience American culture

The taxable items listed above normally represent 65% of the grant. No consideration is given to the differences in recipients and source of funding. U.S. citizens and permanent residents are allowed to utilize the standard deduction when calculating their tax; non-resident aliens are not.

The results for A.I.D. are:

1. All A.I.D. participant trainees (approximately 18,000) are required to file tax returns

whether they owe money or not. This includes individuals who are covered by tax treaties.

2. 3,000 of these students are categorized as scholarship/fellowship recipients and have estimated tax liabilities of $1,346 each or $4,038,000 for all students in this category.

3. 14,000 of these students may be allowed to deduct the total cost of the training (all of the items listed above) based on the fact that their training is job related; the expenses related to the training are considered business expenses. I use the word "may" because the determination regarding job related expenses is done on a case-by-case basis by the IRS. Some auditors have agreed with our assessment and some have not.

4. 1,000 students, because of IRS definitions, are not eligible for any deductions other than a personal exemption. The individual estimated liability is $536 or a total liability of $536,000.

5. The estimated administrative cost to our contractors for processing the papers involved is approximately $2,240,000 per year. This doesn't count the A.I.D. or IRS staff time.

6. Current total financial impact for A.I.D.:

    - -- Payment of $6.8 million in taxes and related costs each year.

    - -- If the IRS disagrees with our interpretation of the law in regard to students in job related training, the impact could be as high as $20 million per year.

Since the amount of money we provide trainees for living is very close to what they must spend for the basics, there is no money available in their grants to pay taxes. In addition, since these are sponsored students, generally they are not allowed to work. This means that A.I.D. must foot the bill for the tax liability and administration.

The ultimate impact on A.I.D. will be the need to reduce the numbers of individuals served in order to meet the tax obligations.

-- $6.8 million would provide:

  - 378 people one year of college ($18,000 per yr) or
  - 1133 short term training opportunities ($6,000 per person).

Following are charts showing how we arrived at these figures.

FINANCIAL CONSEQUENCES OF PAYING INCOME TAXES AND WITHHOLDING FOR A.I.D. PARTICIPANT TRAINEES

Type of Student	Scholarship/Fellowship Recipient with no Current Job Attachment	Recipient in Training for New Type of Work	Job Required Training (May or May not be Scholarship/Fellowship)	Not Job Required and Not Scholarship/Fellowship
Definition	Student enrolled in an educational facility (regularly scheduled classes and a faculty) who has no job attachment. Educational facilities include public and private schools as well as some training institutions that are accredited or licenced. Whether the school awards a degree is immaterial.	Student in training to qualify for a new type of work, such as an accountant studying to become an engineer, health worker or public administrator.	Student in training required by the employer or to improve current job performance. May train for a new job in same general type of work such as a primary teacher studying for high certificate or to be a guidance counselor.	Student who is being trained for a new type of work in a setting or institution that does not qualify as an educational institution.
Tax Application	Both of these categories are the same for tax purposes. The student may exclude from gross income tuition, fees, books and required supplies and equipment as scholarship/fellowship expenses.		The student may deduct all expenses related to training including room,board and travel.	The student must pay taxes on all of the money received for living and training.
Number in A.I.D.'s Caseload	Between these two categories it is estimated that there are 3,000 participants. (All CAPS undergraduates, Tunesians, Yemeni, Cypriots, and 200 other.		14,000 (6,000 academics & 8,000 technical)	1,000
Tax Calculation	12 Month Average Public School Cost.....$16,886 Exclude: Tuition........$5,000 Books.......... 780 Equipment...... 200 Adjusted Gross Income...................$10,906 (Maintenance, Insurance, Travel,etc.) Less Personal Exemption $ 1,950 Taxable Income $ 8,956 Tax $ 1,346* $1,346 x 3,000 Trainees = $4,038,000 * Because this tax will be paid by A.I.D. it will be income to the participant in the year paid and thus will be taxed.		No significant tax liability	Short Program Cost $3,750 $ 164 Personal Exemp ($5.48/day x 30d) $3,586 Taxable $ 536 Tax* $536 x 1,000 Trainees = $536,000

FINANCIAL CONSEQUENCES OF PAYING INCOME TAXES AND WITHHOLDING
FOR A.I.D. PARTICIPANT TRAINEES

Type of Student	Scholarship/Fellowship Recipient with no Current Job Attachment	Recipient in Training for New Type of Work	Job Required Training (May or May not be Scholarship/Fellowship)	Not Job Required and Not Scholarship/Fellowship
Admin. Cost	It is estimated that withholding, tax reporting and participant assistance will cost $240 per year or $20 per month. 3,000 x 11 months (average) x $20 = $660,000		6,000 x 11mo. x $20 = $1,320,000 8,000 x 1.5mo x $20 = $ 240,000	1,000 x 1 mo. x $20= $20,000 4/25/89

RESPONSES OF ALAN WOODS TO QUESTIONS ASKED BY SENATOR DODD

Last month Congress passed and the President signed into law new legislation to provide additional assistance to the Contra forces through February 1990.

For the most part, this legislation allows for the continuation of the Contra aid funding arrangements approved in October of last year (P.L. 100-463). The new legislation does, however, contain one major difference: Unlike the previous program, assistance is now to be available to support "voluntary reintegration of and voluntary regional relocation by the Nicaraguan Resistance."

As in the case of the October 1988 legislation, the Agency for International Development (AID) is charged with making arrangements for the delivery of all U.S. Government assistance to the Contra forces, (with the requirement that such arrangements be consistent with the Bipartisan Accord on Central America, signed March 24, 1989).

1. How does AID interpret "support for voluntary reintegration and voluntary regional relocation by the Nicaraguan Resistance"?

2. Has AID made the Contra forces aware of the fact that such assistance is available? If not, why not? If so, how was this done?

3. Has AID determined the nature of the assistance that may be provided for reintegration or relocation purposes? If so, please describe it.

4. Please describe AID's plans for reintegration assistance. Have these plans been discussed with either the Government of Nicaragua or the Government of Honduras? With any international or regional organizations? With any private volunteer organizations?

5. Please describe AID's plans for relocation assistance. Have these plans been discussed with government officials in the region? With international or regional organizations? With any private voluntary organizations?

6. Does AID have any plans to discuss the matter of reintegration and relocation assistance with the appropriate committees of the Congress, including the Senate Foreign Relations Committee and the House Foreign Affairs Committee?

7. Aside from programs to implement the reintegration and relocation mandate of the new law, does AID plan any changes in the programs, training, supplies or other kinds of assistance it was providing pursuant to P.L. 100-463? If so, When does AID intend to consult with the relevant committees of Congress, including the Senate Committee on Foreign Relations on these proposed changes?

8. Press reports indicate that elements of the Yatama Indian resistance forces have requested reintegration assistance from the U.S pursuant to H.R. 1750. Are these reports accurate? Will such assistance be provided pursuant to the H.R. 1750? Why or why not?

AID TO THE NICARAGUAN RESISTANCE

Mr. Dodd: Last month Congress passed and the President signed into law new legislation to provide additional assistance to the Contra forces through February 1990. For the most part, this legislation allows for the continuation of the Contra aid funding arrangements approved in October of last year (P.L. 100-463). The new legislation does, however, contain one major difference: Unlike the previous program, assistance is now to be available to support "voluntary reintegration of and voluntary regional relocation by the Nicaraguan Resistance."

As in the case of the October 1988 legislation, the Agency for International Development (A.I.D.) is charged with making arrangements for the delivery of all U.S. Government assistance to the Contra forces, (with the requirement that such arrangements be consistent with the Bipartisan Accord on Central America, signed March 24, 1989).

How does A.I.D. interpret "support for voluntary reintegration and voluntary regional relocation by the Nicaraguan Resistance?"

Answer: A.I.D.'s current objectives in preparing Resistance personnel for eventual voluntary return to civilian life are, in part, contingent upon the Central American presidents' plan for the voluntary demobilization and repatriation of the Resistance and upon individual decisions by Resistance members and their families.

At this time, we interpret this assistance as meaning vocational and civic training that will help them reestablish their livelihoods and better understand their rights and duties as citizens in a democratic Nicaragua.

Once we know the details of the demobilization plan now being drafted by the Central American presidents' plan, we will pursue specific ideas for supporting those arrangements. For instance, such support might include, but not be restricted to, tools, seeds, fertilizers and the means to sustain themselves until they can become self-sufficient.

Mr. Dodd: Has A.I.D. made the Contra forces aware of the fact that such assistance is available? If not, why not? If so, how was this done?

Answer: Yes. A.I.D. personnel have discussed this subject with Resistance leadership in the field in late April, and they are aware of our plans as I just explained them.

Mr. Dodd: Has A.I.D. determined the nature of the assistance that may be provided for reintegration or relocation purposes? If so, please describe it.

Answer: As I have stated, the nature of support we provide depends on the framework of the reintegration plan that is being drawn up by the five Central American presidents. At this time, we interpret this assistance as meaning vocational and civic training that will help Resistance personnel reestablish their lives should they return to a democratic Nicaragua. Once all the details of the demobilization plan are known and are finalized, we will pursue specific ideas for supporting the plan, such as providing tools, seeds, fertilizers and the means for Resistance personnel to sustain themselves until they can become self-sufficient.

Mr. Dodd: Please describe A.I.D.'s plans for reintegration assistance. Have these plans been discussed with either the Government of Nicaragua or the Government of Honduras? With any international or regional organizations? With any private volunteer organizations?

Answer: I have just described A.I.D.'s current position regarding reintegration assistance. We understand that the five governments have been meeting to determine a framework for voluntary demobilization, reintegration or relocation of the Resistance. I am certain the Central American governments are aware of the broad U.S. commitment under the current legislation to support the voluntary reintegration process. At this time, we have not had any contact with regional governments or international organizations on this specific subject.

Mr. Dodd: Please describe A.I.D.'s plans for relocation assistance. Have these plans been discussed with government officials in the region? With international or regional organizations? With any private voluntary organizations?

Answer: As I stated, the regional governments have not determined the relocation plan. Of course, they are aware of our commitment under the current legislation to support this process but have yet to suggest what sort of assistance might be needed or welcomed from the United States or any other party. We have not had any contact with regional governments or international organizations on this specific subject.

Mr. Dodd: Press reports indicate that elements of the Yatama Indian resistance forces have requested reintegration assistance from the U.S. pursuant to H.R. 1750. Are these reports accurate? Will such assistance be provided pursuant to the H.R. 1750? Why or why not?

Answer: To date, we have not received any request for reintegration assistance from the Yatama Indian resistance forces. Of course, we would consider requests for reintegration assistance.

Mr. Dodd: Aside from programs to implement the reintegration and relocation mandate of the new law, does A.I.D. plan any changes in the programs, training, supplies or other kinds of assistance it was providing pursuant to P.L. 100-463? If so, when does A.I.D. intend to consult with the relevant committees of Congress, including the Senate Committee on Foreign Relations on these proposed changes?

Answer: Other than the training and other possible support under the reintegration mandate that I have just described, we plan no changes in the program. Of course, relevant oversight committees would be consulted if any changes were considered necessary.

Mr. Dodd: Does A.I.D. have any plans to discuss the matter of reintegration and relocation assistance with the appropriate committees of the Congress, including the Senate Foreign Relations Committee and the House Foreign Affairs Committee?

Answer: As the Central Americans determine the plan and as we develop specific ideas for supporting reintegration or relocation, Congress will be briefed on our intentions. As A.I.D. has done from the beginning in this program -- and fully consistent with the new Bipartisan Accord -- Congress will be consulted on these activities.

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